Ruud Lubbers: Suspicious of Paris and Bonn, Page 12
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Good hope: US institutions look to invest in South Africa, Page 16
Today's surveys: Foreign Exchange, Belgium, Separate sections

FINANCIAL TIMES

Europe's Business Newspaper | THURSDAY JUNE 2 1994 | D8523A

ITT Sheraton may seek control of Ciga hotel group

ITT Sheraton of the US is expected to seek effective control of luxury Italian hotel group Ciga after acquiring a 14 per cent stake. ITT confirmed it acquired the holding during an auction of Ciga shares last month, but refused to comment on whether it planned to increase its stake further. However, Italian regulations require a shareholder in ITT's position to make a public offering for a further stake equivalent to the one it already holds. This would bring ITT's holding up to 28 per cent. Gaining control of the luxury chain would be a coup for ITT, whose ambitions to acquire the group appeared to have been thwarted last April. Page 15

EU urged to act on networks: The European Union must act now to ensure that there will be no shortage of finance for constructing large transport, energy and communications networks in Europe, said European Commission vice-president Henning Christophersen. Page 14

Australian growth rate surges: Australia's economic growth rate surged to an annualised 5 per cent in the March quarter, well in excess of forecasts and prompting a fall in bond prices and a sharp rise in the local dollar. Page 5

Seagram wants Time Warner board seat

International drinks company Seagram has indicated that it wants a seat on Time Warner's board, but has no plans to raise its 14.9 per cent stake in the US entertainment and publishing group. The issue of Seagram's representation on the Time Warner board has contributed to an awkward relationship between the two. Edgar Bronfman Jr (left), who took over yesterday as Seagram's chief executive from his father, said: "We would prefer to be invited". Page 15

Reforms create new Indian elite: Financial reforms are creating a new elite in India, bringing Wall Street investment banks, aggressive headhunting and salary packages that tower over the earnings of bank clerks of Bombay. Page 14

SBC backs derivatives regulation: Swiss Bank Corporation, one of the top international banks in the financial derivatives field, has backed the main recommendations of the US General Accounting Office for regulation of the sector. Page 3

Pirate disc sales double: Worldwide sales of pirate compact discs doubled to 75m units last year, almost exclusively due to unauthorised production in China, according to the International Federation of the Phonographic Industry. Page 4

Canada tops 'quality of life' index: A United Nations index of quality of life – measuring life expectancy, education and purchasing power – put Canada first, ahead of Switzerland and Japan. Index points to future civil wars, Page 5

UK studies Euro-plugs change: British consumers face costs of £78m ($117m) a year for 40 years if the UK backs a changeover to European electrical plugs and sockets, according to a Department of Trade and Industry report. Page 7

Zurich Insurance, one of Europe's largest insurance companies, is to launch a telephone-based direct sales operation next month in preparation for the imminent deregulation of the European insurance market. Page 15

Deal creates food distribution leader: Fleming, second biggest wholesale food distributor in the US, is to buy Scrivener, the country's third biggest, from its German parent for $1.1bn cash. The combined companies will be the biggest food distribution group in the US. 15

Bosnian talks to reopen: Bosnia's warring parties were due in Geneva today for talks on the republic's future which diplomats are describing as virtually the last chance for a negotiated settlement. Page 2

UN meeting on N Korea: The US, South Korea and Japan will consult tomorrow at the United Nations to discuss their response to North Korea's refusal to allow full international inspection of its nuclear programme. Page 5

Workplace tension 'growing': Growing pressures on business during Britain's economic recovery are increasing tensions in the workplace, the independent Advisory Conciliation and Arbitration Service warned. Page 7

■ STOCK MARKET INDICES		
FT-SE 100:	2931.9	(-38.6)
Yield	4.2	
FT-SE Eurotrack 100	1369.97	(-10.76)
FT-SE-A All-Share	1484.83	(-1.1%)
Nikkei	21,053.11	(+79.52)
New York: lunchtime		
Dow Jones Ind Ave	3744.83	(-13.54)
S&P Composite	456.56	(-0.95)
■ US LUNCHTIME RATES		
Federal Funds	4¼%	
3-mo Treas Bills: Yld	4.262%	
Long Bond	85½	
Yield	7.462%	
■ LONDON MONEY		
3-mo Interbank	5⅜%	(5¼%)
Liffe long gilt future:	Jun 99¼	(Jun 102⅞)
■ NORTH SEA OIL (Argus)		
Brent 15-day (July)	$16.52	(16.36)
■ Gold		
New York Comex (Aug)	$383.3	(390.0)
London	$380.7	(387.8)

■ STERLING		
New York lunchtime:		
$	1.5185	
London:		
$	1.5171	(1.5118)
DM	2.4922	(2.4845)
FFr	8.5208	(8.4953)
SFr	2.1218	(2.1203)
Y	158.765	(158.212)
£ Index	80.3	(80.0)
■ DOLLAR		
New York lunchtime:		
DM	1.6432	
FFr	5.6195	
SFr	1.3985	
Y	104.525	
London:		
DM	1.6428	(1.6435)
FFr	5.6165	(5.6195)
SFr	1.3986	(1.4025)
Y	104.65	(104.655)
$ Index	65.3	(65.3)
Tokyo close Y 104.72		

Austria	Sch32	Greece	Dr250	Lux	LFr65	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$18	Malta	Lm0.60	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft165	Morocco	MDh13	Singapore	S$4.30
Bulgaria	Lv25.00	Iceland	IKr200	Neth	Fl 4.00	Slovak Rp	SK30
Cyprus	C£1.00	India	Rs60	Nigeria	Naira50	South Africa	R12.00
Czech Rp	CZK50	Israel	Shk8.50	Norway	NKr17.00	Spain	Pta225
Denmark	DKr15	Italy	L3000	Oman	OR1.50	Sweden	SKr16
Egypt	E£5.00	Japan	Y600	Pakistan	Rs40	Switz	SFr3.30
Finland	FM14	Jordan	JD1.50	Philippines	Peso50	Syria	S£70
France	FFr8.50	Kuwait	Fils600	Poland	Zl 32,000	Tunisia	Din1.500
Germany	DM3.50	Lebanon	US$1.50	Portugal	Esc225	Turkey	L20,000
						UAE	Dh12.00

Lubbers urges resistance to Franco-German alliance over European Commission presidency

Dutch premier warns on Delors job

By Lionel Barber and Ronald van de Krol in The Hague

Mr Ruud Lubbers, Dutch prime minister and candidate for the presidency of the European Commission, gave a warning yesterday against the dangers if Germany and France should dictate the choice of a successor to Mr Jacques Delors.

In the face of clear signals that Paris and Bonn favour Mr Jean-Luc Dehaene, prime minister of Belgium, Mr Lubbers appealed to all other EU member states to make up their own minds on who should win the top executive post in Brussels.

Mr Lubbers, the longest-serving prime minister in Dutch history, praised Franco-German co-operation but told the Financial Times he had no plans to drop out of the race, in spite of the Franco-German snub.

His determination to carry on may deadlock the European summit in Corfu on June 24-25, when the EU heads of government are to choose unanimously a successor to Mr Delors. But it might also open the way for a compromise candidate to emerge, such as Britain's Sir Leon Brittan, chief EU trade negotiator, or Ireland's Mr Peter Sutherland, outgoing head of the General Agreement on Tariffs and Trade.

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In the interview, Mr Lubbers paid tribute to the Franco-German axis for giving direction to the European Union. But he also said that the political balance of the EU depended on all member states feeling that their views were being taken seriously.

Earlier this week, Mr François Mitterrand and Mr Helmut Kohl agreed at a Franco-German summit on a joint candidate for the presidency of the Commission. The two leaders did not disclose their preference, but senior officials in both camps said they backed Mr Dehaene, who has yet to declare publicly.

"Chancellor Kohl and President Mitterrand also have a responsibility themselves in the balancing act," Mr Lubber said.

He said his candidacy had moved beyond the issue of personalities. It also touched upon the place of the Netherlands in the Union and its status as a founder member.

Warning that Dutch enthusiasm for Europe was waning, Mr Lubbers noted that there had been an outcry in the Dutch press this week about reports of French and German opposition to his candidacy.

"I have invested a lot in good relations with neighbouring countries, especially Germany and France. I would hate to have a false tone [injected]," he said.

Mr Lubbers said the Belgian premier had "excellent qualities", but emphasised that Mr Delors' successor should be chosen by consensus among the 12 EU member states. "The choice that has to be made now is not only a choice by Bonn and Paris," he said.

The Dutch prime minister, tipped for years as the next Commission president, waited until the close of last month's general election campaign in the Netherlands to launch his bid for the job. "I did it because I really believe in Europe. I'm a European."

The contest for Mr Delors' succession is complicated by potential horse-trading over several other top international posts, including those at the Nato alliance, the Paris-based Organisation for Economic Co-operation and Development, the new World Trade Organisation, the Western European Union, the EU's emerging defence arm, as well as the head of the European Council secretariat.

Neither the OECD post nor the Nato post is within the gift of the Europeans.

Schneider chief to stay in jail as probe continues

by John Ridding in Paris and Emma Tucker in Brussels

A Brussels court yesterday ordered Mr Didier Pineau-Valencienne, chairman of France's Groupe Schneider, to remain in prison following a decision to confirm charges of fraud and swindling relating to two Belgian subsidiaries of the electrical engineering group.

The continued detention of Mr Pineau-Valencienne is expected to exacerbate strains between France and Belgium over the affair. French business leaders were shocked by the detention of the Schneider chairman, a prominent industrialist, while politicians have expressed concern about the case.

Mr Pineau-Valencienne, who has been detained in Brussels' Forest prison since last Friday, faces up to a month of detention while the investigation continues. He has 24 hours to appeal against yesterday's ruling. Mr Valentino Foti, an Italian businessman who faces the same charges as the Schneider chairman, has also been further detained.

Belgian prosecutors yesterday clarified their charges against Schneider. They claim that assets worth about BFr4.8bn ($139m) had been concealed from regulators and shareholders in Cofibel and Cofimines, the two Schneider subsidiaries at the centre of the investigation. The prosecutors also charge that dividends from offshore companies belonging to the subsidiaries were not distributed to all shareholders. The non-payment of dividends amounted to BFr1.8bn, the prosecutors claim.

Minority shareholders in the two subsidiaries had claimed that their companies had been undervalued when Schneider launched its 1992 offer to buy them out. Schneider reached agreement with minority shareholders earlier this year, but previous legal complaints by the minority shareholders triggered the investigation by Belgian judicial authorities.

Schneider said it deplored the decision to detain Mr Pineau-Valencienne, adding that it was convinced the accusations are groundless. Schneider shares, which were suspended yesterday pending the ruling, are due to resume trading today.

It denies harming minority shareholders and claims that, although nominally chairman of Cofibel and Cofimines, Mr Pineau-Valencienne played no part in the management of the subsidiaries, which were run by Mr Jean Verdoot, who died last year.

The case has prompted concern from French politicians. Mr Edouard Balladur, the French prime minister has telephoned his Belgian counterpart, Mr Jean-Luc Dehaene.

Tony Blair (left) yesterday became the favourite to lead the British Labour party when his colleague, Gordon Brown, pulled out of the race and backed his candidacy. Details, Page 14 Picture: Ashley Ashwood

Saudi noble to take big stake in ailing theme park

Euro Disney's prince has come

By Alice Rawsthorn in Paris

Prince Al-Waleed Bin Talal, the Saudi prince who is one of the Middle East's most aggressive investors, yesterday came to the rescue of Euro Disney, the stricken leisure group, by announcing plans to buy up to 24.5 per cent of the company on the eve of its emergency financial restructuring.

The prince, who is also prepared to invest $100m to build a second conference centre at the EuroDisneyland theme park near Paris, has for been in negotiations the past six weeks with Euro Disney and Walt Disney, its US parent company, to thrash out the terms of a deal.

Prince Al-Waleed, 37, a nephew of King Fahd, first surfaced on the international investment scene in 1991 by buying a 14.88 per cent stake in Citicorp, the US banking group. He has interests in finance, media, construction and recently joined forces with Accor, the French hotel company, in its effort to buy the Meridien luxury hotel chain from Air France.

The prince, with United Saudi Commercial Bank, of which he is chairman, has negotiated a complex deal with Walt Disney whereby he can buy between 13 per cent and 24 per cent of Euro Disney's shares after the completion of its forthcoming FFr13bn ($2.27bn) emergency financial restructuring.

He has offered to buy any shares left on the market after Euro Disney's imminent FFr6bn rights issue. He will be allowed to retain only up to 24.5 per cent of the group, so that his holding is no more than 50 per cent of that of Walt Disney's 49 per cent stake.

If the rights issue is heavily subscribed – which is considered to be unlikely, given the gravity of Euro Disney's recent financial difficulties and the steep fall in its share price – Prince Al-Waleed will be able to acquire a stake of up to 13 per cent from Disney.

The US group, which has already sustained heavy losses on its Euro Disney holding, is willing to reduce its investment to 36 per cent, providing the prince's stake is worth no more than half that.

The prince's emergence comes only a few days before Euro Disney's extraordinary general meeting next Wednesday at the EuroDisneyland theme park. Euro Disney is then expected to announce the terms of its FFr6bn rights issue.

Ms Rebecca Winnington-Ingram, leisure analyst at Morgan Stanley, the securities house, described Prince Al-Waleed's appearance as "a great relief" to Walt Disney and the Euro Disney banks, which have offered to underwrite the rights issue. She said, however, it would make "no difference at all" to ordinary shareholders, who still face heavy dilution.

The rights issue will form the final stage of the Euro Disney restructuring, which also involves the company in dramatically reducing the value of its FFr20.3bn net debt by repaying FFr10bn of its loans to the banks. Euro Disney is expected to price the shares in the issue at between FFr5.00 and FFr10.00, thereby creating up between 600m and 1.2bn new shares.

The news that Prince Al-Waleed is willing to invest $100m in a new conference centre might provide a lucrative new source of revenue for Euro Disney.

Bonds fall further on inflation fears

By Conner Middelmann in London and Frank McGurty in New York

European and US government bond markets fell further yesterday as sentiment worsened on fears that economic recovery may fan inflationary pressures.

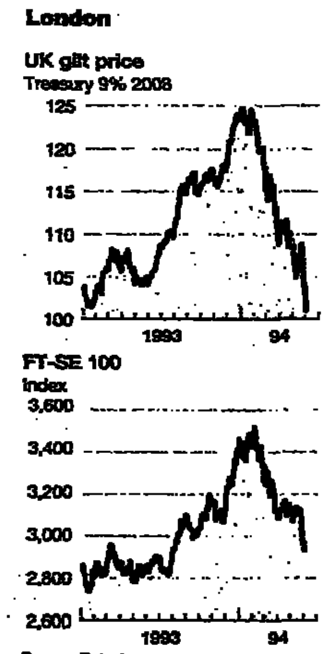
Dealers reported selling mainly by institutional investors who had been sitting on loss-making positions for months. This combined with technically driven selling in the futures markets to push prices in many markets to new lows for the year.

Shares in London and Paris were dragged lower by weaker bond prices, although there were small gains elsewhere. US shares lost ground but mainly in response to domestic factors. The FT-SE 100 index closed down 38.6 to 2,931.9, its lowest finish since July.

French shares ended with sharp losses, with the CAC-40 closing 50.22 lower at 1,972.18, below 2,000 for the first time since July. German stocks edged higher but finished well below their best.

A strong report from the US National Association of Purchasing Managers and higher-than-expected German industrial production data contributed to the fall in European and US bond prices. Tomorrow's publication of US May jobs data is widely awaited for further clues on the direction of US interest rates.

The UK gilts market was one of the worst performers, plagued by fears that the economic recovery will fuel inflation pressures and



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Move to cool Crimea row thrown out

By Jill Barshay in Kiev

Ukraine's divided parliament yesterday rejected a proposal by President Leonid Kravchuk to set up a constitutional court to resolve the status of the disputed Crimean peninsula. Instead, it voted for a four-point resolution which suspended the quasi-independence constitution reintroduced by Crimea two weeks ago and called on the president to come up with a list of "concrete measures" by June 6 to ensure Crimea's compliance with Kiev's wishes.

It also set up a parliamentary commission to seek ways of harmonising Ukrainian and Crimean legislation within the next month.

The rejection of Mr Kravchuk's proposals was another step in the internal power struggle between parliament and president but merely led to the search for another formula which gave the semblance of activity while holding back from actions which carry the risk of conflict between Ukrainians and ethnic Russians.

The long-standing dispute between Kiev and the ethnic-Russian dominated Crimean parliament reignited earlier this month when the latter unilaterally reintroduced a constitution which barely stops short of bestowing full sovereignty on the region.

The peninsula, a holiday area, was part of Russia for two centuries until transferred to Ukraine in 1954. A 10-day Ukrainian-imposed deadline to rescind the constitution passed unobserved two days ago.

Mr Kravchuk's attempt to cool the temperature of a dispute which threatens to grow into violent conflict between Russians and Ukrainians earned a contemptuous response from many Ukrainian nationalist MPs in the deeply divided Ukrainian parliament. It was interpreted as a sign of weak leadership from a lame duck president hobbled by the proximity of presidential elections on June 26.

The Crimean dispute is closely linked to the status of the former Soviet Black Sea fleet, which is based in the peninsula. Three days of talks between the Russian and Ukrainian prime ministers last week failed to remove the impasse.

Mr Kravchuk stated yesterday that while Russia had no objective need for a fleet based on Ukrainian territory it was unrealistic for it to be withdrawn immediately.

Yesterday was doubly humiliating for Mr Kravchuk as rejection of his constitutional court proposal by the bitterly divided Ukrainian parliament was matched by the studied indifference on the part of the Crimean parliament to his repeated call for Crimea to rescind its quasi-independence constitution.

During hours of heated and often confused debate several nationalist MPs in the Kiev parliament demanded the establishment of direct presidential rule over the peninsula, while Mr Serhiy Holovaty, from the democratic opposition, summed up the attitude of many to the president's proposals when he complained that "one month is a long time and we have no guarantee that the court will be formed in that time or that it will carry authority".

Mr Holovaty advocated the calling of a state of emergency, while MPs from eastern Ukraine, where separatist demands similar to those of Crimea are brewing among the many Russian-speakers, argued that Ukraine should move, like Russia, towards a federal structure in which all regions would have more autonomy.

Mr Gennady Ugarov, an MP from the "Unity" faction spoke for many ethnic Russians when he told the parliament: "We must take reality into account and accept Crimea as it is, whether we like it or not." The stand-off continues.

VW pressure on Madrid over Seat funding

By Michael Lindemann in Hamburg and David White in Madrid

Volkswagen said yesterday it hoped to end talks with the Madrid government "in the next two weeks" to clear the way for further restructuring at Seat, its loss-making Spanish subsidiary.

The company said it wanted Spain to contribute DM820m ($500m) to fund redundancies at Seat. It claimed there were "positive signals" that the government would make funds available and a further meeting was scheduled for next week.

However, in Madrid, the industry ministry said it would only be willing to pump more money into the Barcelona-based car company for new development projects. The government also argues that its scope for providing help is limited by European Union rules.

Mr Juan Ignacio Moltó, secretary of state for industry, told VW representatives on Tuesday the government was not prepared to fund redundancy packages. Excess labour was "a problem for private sector management". However, the Spanish authorities are anxious to see Seat maintained as a separate company within the VW group. The regional government of Catalonia, also under pressure to assist the loss-making company, has criticised Madrid for delay in resolving the issue.

Meanwhile, VW announced that it had had "positive results" at company and group level in April and May but would not give details of profits. The company has already said it hopes to improve on its 1993 profit of DM71m at company level this year and to break even at group level following a loss of DM1.4bn last year.

Worldwide deliveries in the first five months rose 6.1 per cent over the year before to total 1.4m units. Germany was the only market where deliveries fell – by 4.1 per cent – a fact VW blamed on weak demand there generally and poor sales at Audi.

Several shareholders were angry that the VW management had not foreseen the DM1.84bn losses at Seat last year but there was broad support among the 3,500 shareholders for Mr José Ignacio López de Arriortúa, the VW production chief at the centre of suspicions about industrial espionage.

Both Mr Ferdinand Piëch, the chief executive, and Mr Klaus Liesen, the chairman of the supervisory board, made impromptu comments after prepared speeches, reflecting the anger about Opel allegations in the days before the annual meeting. "There is *up to now no evidence which* would justify the charge of industrial espionage," Mr Liesen told applauding shareholders. Mr Piëch, in turn, denied all suggestion that Mr López would move to Seat.

Seat lost DM350m in the first quarter of this year and VW hopes the group will end the year with a loss of around DM1bn, compared with a loss of DM1.84bn in 1993. The company is expected to become profitable again in 1995.

Mr Piëch said there were two solutions at Seat. A "friendly" one would be to leave Seat as an independent subsidiary. A more drastic alternative would involve merging Seat with other VW operations, leaving only an independent sales unit. It has asked the Spanish government to fund the redundancy of older workers, who are entitled to three years' redundancy payment which will cost about DM820m. Otherwise, VW says it will spend DM160m to shed the same number of younger workers.

Lines open up to Europe's information society

The long-awaited Bangemann report says liberalisation of telecoms is unstoppable, writes Emma Tucker

Martin Bangemann: "Our purpose is to make clear that we cannot hold up this process. Nobody can."

It is too late for member states of the European Union to stand in the way of telecommunications liberalisation, Mr Martin Bangemann, the industry commissioner, insisted yesterday.

Presenting a summary of recommendations from his long-awaited "Information Society" report, Mr Bangemann said: "Our purpose is to make clear that we cannot hold up this process. Nobody can."

To be presented to EU leaders at next month's summit in Corfu, the report says member states must accelerate the process of liberalisation by opening up to competition those infrastructures and services that remain monopolistic.

Flanked by senior figures from the electronics industry, Mr Bangemann said: "Private investors will only get involved in a market which promises a return on their investment."

The report highlights some of the challenges that lie ahead for the Union if it is to keep abreast of rapid developments in the field of telecommunications. For example, it raises the prospect that out-dated and anachronistic laws in areas such as media ownership, intellectual property rights and security of information will have to be replaced if the EU is to have an appropriate regulatory framework.

It identifies a number of areas where cross-border differences could continue to hinder an internal market in telecommunications. It recommends, for instance, that urgent attention be paid to the problem of media ownership, where divergent national legislation could undermine the free movement of information.

Currently, rules governing media ownership between the member states differ widely. With different media services gliding ever more easily across frontiers, failure to harmonise these rules could lead to problems of access. The report adds that effective rules to ensure that ownership is not concentrated in one or two powerful hands must also be put in place.

On intellectual property protection, the report lacks specifics but highlights the need to adjust the present outdated rules, many of which were invented before information and creative products could be dispersed as easily as they are now.

The report also urges the EU to speed up the process of European standardisation, making interconnection of networks a primary objective. And, as a matter of urgency, international long-distance and leased-line tariffs should be adjusted to bring them into line with rates practised in other advanced industrialised regions, it says.

The group of industrialists that helped Mr Bangemann have also recommended that tariffs for mobile telecommunications be reduced, and that a regulatory framework for satellite be established.

As for funding, the report says that "the creation of the *information society should be* entrusted to the private sector and to market forces". However, the recommendations are vague on the issue of existing public funding, saying only that it should be "refocused more specifically to target the requirements of the information society".

Finally, it recommends that, given the urgency of the tasks ahead, member states should now nominate individual ministers to represent it at a new council of ministers dedicated to the information society.

Bosnian talks to reopen amid warnings

Our Foreign Staff reports on the latest peace moves and fears of more fighting

Bosnia's warring parties were due in Geneva today for talks on the republic's future which diplomats are describing as virtually the last chance for a negotiated settlement.

While Mr Radovan Karadzic, the Bosnian Serb leader, and his military chief Radko Mladic said they would certainly attend, there was uncertainty up to the last moment as to whether, and at what level, the Moslem-led government would be represented.

The talks have been arranged amid warnings from western observers that the conflict could soon escalate, and a series of grim new revelations about the scale on which ethnic cleansing has been practised in Bosnia.

"People who are close to the peace process give the current talks about a one-in-four chance of succeeding," said Mr Michael Clark, director of the Centre for Defence Studies in London. He said the window of opportunity for a negotiated partition was closing steadily as France, and to a lesser extent Britain, were growing doubtful about the feasibility of retaining troops in Bosnia for another winter.

Meanwhile, the latest revelations about ethnic cleansing were reinforcing the determination of the Moslems and their international sympathisers to resist any settlement that appeared to reward Serb military gains.

The UN said 550 people crossed into Croatia yesterday, the latest in a stream of Croats and Moslem civilians who have been leaving the Serb stronghold of Banja Luka under pressure from local warlords.

Separately, a UN commission on war crimes, in a report published in part by Reuters news agency, said 50,000 people had been killed or deported in one relatively small area of north-west Bosnia, around Prijedor. "It is unquestionable that the events in the Prijedor region since April 30 1992 qualify as crimes against humanity. Furthermore, it is likely to be confirmed in court under due process of law that these events constitute genocide," the commission found.

Despite the gloomy background, Mr Vitaly Churkin, the Russian special envoy to Bosnia, sounded a more optimistic note after two rounds of talks with Serbia's President Slobodan Milosevic in Belgrade. He said he thought the Geneva talks would lead to a ceasefire.

However, the government in Sarajevo, bolstered by the new alliance between Croats and Moslems, has expressed reluctance to take part in further talks unless the Serbs withdraw fully from the UN "safe area" of Gorazde in eastern Bosnia.

The Bosnian government suspects Mr Yasushi Akashi, the UN diplomat who convened today's talks, of being too soft on Serb violations of ceasefire arrangements in Sarajevo and elsewhere. The Serbs say their troops in the Gorazde area have a legitimate function of maintaining order and protecting Serb refugees.

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EUROPEAN NEWS DIGEST

Man held over Schneider funds

A former business colleague of Mr Jürgen Schneider, the German property entrepreneur whose disappearance in April triggered Germany's biggest property crash since the second world war, has been arrested on suspicion of assisting Mr Schneider transfer up to DM750m (£300m) of company funds out of Germany.

The Cologne-based businessman, who was not named, is believed to be an Iranian who was managing director of a company within the Schneider group up to March this year. According the the state prosecutor's office in Frankfurt, the person arrested had established contacts with an unnamed Swiss bank and had allegedly helped Mr Schneider transfer the funds. He was arrested on Tuesday morning. Mr Schneider, whose whereabouts are still unknown after he failed to come back from holiday in Tuscany at Easter, has been accused by the Deutsche Bank, the property group's biggest creditor, of misappropriating at least DM218m of the group's funds. Other estimates suggest that he took up to DM750m from the group, which collapsed with DM5bn debts. *David Waller, Frankfurt.*

Poland stays on reform course

Poland is to press ahead with painful reforms of the welfare system, aimed at cutting budget spending, as well as the consolidation and privatisation of the banking system. The capital market is to be strengthened through the development of investment and pension funds, according to a medium-term plan prepared by Mr Grzegorz Kolodko, the new deputy premier and finance minister.

The outlines of the plan were published yesterday as Poland started talks with a team from the International Monetary Fund on a new one-year standby agreement. The government plan, which runs until 1997, foresees an average annual growth rate of 5 per cent. It forecasts the achievement of single-figure inflation in 1997 compared with its present 25 per cent rate. The government also wants to see a reduction in the spread between lending and deposit rates. The unemployment rate is forecast to fall from 16 per cent to 14 per cent, while the budget deficit will reach no more than 3 per cent of GDP in 1997 from its present 4 per cent. *Christopher Bobinski, Warsaw.*

Pension rush as Italians fear cut

Employees on the Italian state payroll are rushing to cash in on early retirement pensions for fear of cuts in the current generous system of benefits. In the first four months of this year INPDAP, the entity responsible for public sector employees' pensions, yesterday reported it had received 29,260 requests for retirement. This compared with estimates, drawn up for budgetary purposes, of 14,580 and 43,700 for the year as a whole. The increase has been caused by the previous government's warnings on cuts in pension benefits and the new government's election pledge to end generous early retirement pensions. INPDAP, said more than 90 per cent of the requests came mainly from people working in local government and municipally run bodies who had been working on average for only 20 years. *Robert Graham, Rome.*

General's killing blamed on Eta

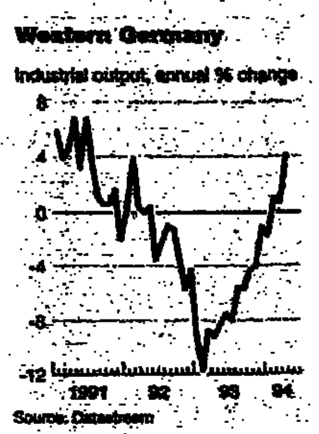
A Spanish general was shot dead outside his home in central Madrid yesterday in an attack suspected to have been carried out by the Basque separatist organisation, Eta. The defence minister, Mr Julian García Vargas, said the shooting confirmed his "worst fear" that Eta has a well organised unit operating in Madrid. General Juan José Hernández Rovira, 58, a widower and the father of six children, held a senior administrative post in the Defence Ministry and had responsibility for general services and supplies to the Spanish forces. *Tom Burns, Madrid.*

Euronews financial relaunch

The 15 public television companies which own Euronews said they had decided on a financial relaunch of the satellite news channel, and if this failed to materialise by October they would reconsider their investment in it. Lyons-based Euronews said shareholders wanted to prevent last year's start-up loss of FFr50m (£5.8m) continuing. *David Buchan, Paris.*

ECONOMIC WATCH

West German output up 2.5%



Industrial production in western Germany rose by 2.5 per cent in April compared with the previous month, with the main sectors showing signs of emerging from the recession, the Federal statistics office reported yesterday. The sharpest increases occured in mining, which rose by 6.5 per cent over the same period. Electricity and gas grew by 4.5 per cent. Even in the manufacturing sector, one of the areas worst hit by the recession, there was an increase of 3 per cent. The combined industrial production figures for March and April also compare favourably over the corresponding period of 1993, with overall growth rising by 1.9 per cent, and the manufacturing sector increasing by 2.1 per cent. However, utilities fell by 4.5 per cent, largely due to weather conditions and high prices. *Judy Dempsey, Berlin.*

■ Dutch consumer borrowing rose 7.7 per cent year-on-year to Fl 3.2bn (£1.2bn) in the first quarter of 1994, the Central Bureau of Statistics said.

■ Spain's trade deficit widened to Pta273.4bn (£1.32bn) in April from Pta163.276bn in March and was up 30.2 per cent year-on-year, the Economics Ministry said.

Scalfaro denies misuse of secret funds

By Robert Graham in Rome

President Oscar Luigi Scalfaro is becoming increasingly embroiled in a controversy over the use of secret funds during his time as interior minister in the 1980s.

Rather than stay aloof from damaging allegations that he was aware of the misuse of the secret funds by the security services, President Scalfaro has been drawn into making a series of rebuttals. These rebuttals have in turn raised more questions than answers.

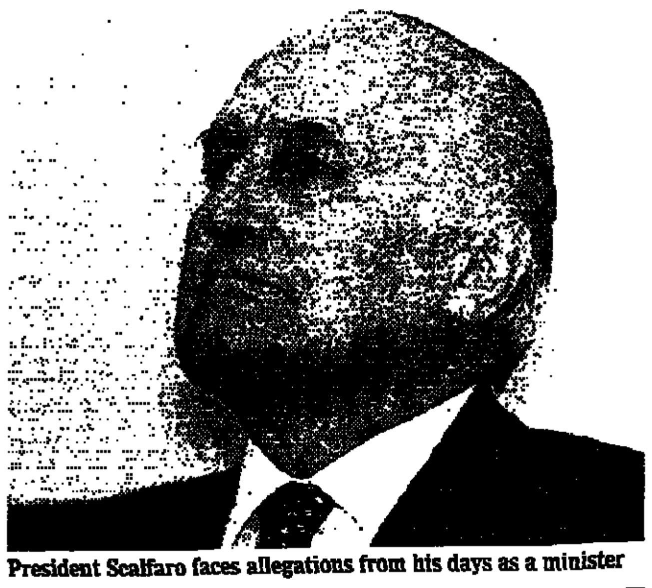
The alleged misuse of these funds by interior ministers over the past decade has been under investigation by Rome magistrates for a year, and seven former top domestic intelligence officials are on trial for embezzlement. At various stages all the accused have sought to implicate four former Christian Democrat interior ministers, including Mr Scalfaro, for operating a secret payments system from unaccountable ministry funds. Mr Scalfaro held the portfolio from 1983 to 1987.

The Rome magistrates last week issued a statement saying they were not investigating the president after further accusation had been made in court. This prompted President Scalfaro to make an angry unprepared statement to journalists. "I defy anyone to prove a single lira was spent by me or other interior ministers for anything other than institutional purposes."

> 'I defy anyone to prove a single lira was spent by me or other interior ministers for other than institutional purposes'

Ever since then the opposition Party of the Democratic Left (PDS), the former communists, as well as the governing Northern League and the neo-fascist MSI/National Alliance, have been calling for explanations of what these "institutional purposes" were. Having admitted he knew about the use of these funds it will be difficult for him to avoid demands to be more specific. No one has denied the need for discretionary funds at the interior ministry, but the president's critics argue there should be some proof the monies were not being misused.

The raising of the temperature on this issue could make the president vulnerable on the question of his tenure. Even before the elections, politicians across the political spectrum had started to question whether Mr Scalfaro, elected by the discredited old parliament, should be allowed his full seven-year term, both the Northern League and the MSI have been giving ever stronger messages that the president can only remain as long as parliament deems fit.


President Scalfaro faces allegations from his days as a minister

Top Swiss banker backs derivative regulation

By Ian Rodger in St Gallen

The chief executive of Swiss Bank Corporation has backed the main recommendations of the US General Accounting Office for regulation of the controversial financial derivatives sector.

SBC, one of the top international banks in the mushrooming derivatives field, has thus distanced itself from US banking and securities industry representatives, who condemned the GAO's report.

The report came at a time of growing alarm that the increasing complexity, leverage and volume of futures, options and swaps contracts could in extreme circumstances lead to a collapse of the world financial system.

According to one estimate, the volume of contracts outstanding exceeded $18,000bn (£12,000bn) at the end of last year. Several industrial companies have reported huge losses in the past year arising from the unexpected behaviour of derivative contracts.

Echoing the GAO, Mr Georges Blum, SBC chief executive, said in a speech at the International Management Symposium in St Gallen that supervisors and regulators in different countries "needed to be more in line with each other on what their aims and instruments should be".

Mr Blum also supported the GAO call for identical regulation of all types of firms active in derivatives.

He criticised regulators and supervisors everywhere for dragging their feet on agreeing accounting and disclosure rules on derivatives, and for not legislating to reduce the risk in so-called netting of contracts. "If lawmakers are concerned about derivatives, these are the obvious areas they should look at first."

Mr Blum also denounced those financial companies who claimed that only low levels of capital were needed to cover their derivatives activities, saying they were "wishing to have your cake and eat it too". "If the stress tests advocated by traders as a way to simulate the extent of the risks occurring in unusual circumstances have any utility, capital must cover the losses derived by the simulations," he said.

"We agree with the regulators when they say that the system should be able to weather a severe storm, even if there is only a remote possibility that it will occur."

CHINA MAINLY TO BLAME

Worldwide pirate disc sales double to 75m

By Michael Skapinker, Leisure Industries Correspondent

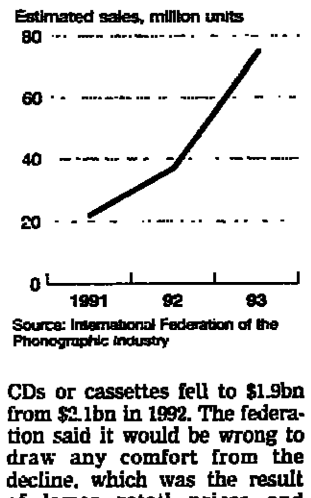
Worldwide sales of pirate compact discs doubled to 75m units last year, almost exclusively as a result of unauthorised production in China, according to the International Federation of the Phonographic Industry.

The IFPI said it expected CD piracy to increase further, unless China took steps to enforce copyright law.

The federation, along with Philips, the Dutch electronics group, has proposed that legitimate manufacturers mark CDs with a four-digit code which would indicate where they were made.

Sales of unauthorised music cassettes fell last year, however, to 675m units from 680m in 1992. There were substantial falls in pirate cassette sales in Mexico and Poland. The level of pirate music sales in both countries remained high. Unauthorised sales accounted for 62 per cent of all recordings sold in Mexico last year and 67 per cent in Poland.

Growth in CD piracy



Source: International Federation of the Phonographic Industry

The value of pirate recordings sold last year on either CDs or cassettes fell to $1.9bn from $2.1bn in 1992. The federation said it would be wrong to draw any comfort from the decline, which was the result of lower retail prices and exchange rate movements.

The federation said the pirates appeared to be getting less for their recordings. The average worldwide price of a pirate cassette, outside China, fell 10 per cent to about $2.70 last year. The price of a CD outside China fell from just under $13 in 1992 to just under $12 last year.

Chinese pirate producers saw CD prices fall even more sharply, from nearly $11 in 1992 to $4.50 last year.

Despite the activities of unauthorised Chinese manufacturers, the US was the biggest market for pirate products last year in value terms. Although pirate sales accounted for only 4 per cent of the US market, their total value was $413.4m, compared with $347.8m in China. Chinese pirate sales by value accounted for half the country's music market.

Mexico was the third biggest pirate market at $196m, followed by Germany at $132.3m and Italy at $111.1m. Pirate sales accounted for only 5 per cent of the German market by value. In Italy, they represented 20 per cent of sales.

The federation said a change in piracy in recent years had been that unauthorised recordings were increasingly being sold in countries other than those in which they were manufactured. "Such product has been traced, for example, from its point of manufacture in China through Europe to its destination in South America."

Back on track in Romania

By Virginia Marsh and Chrystia Freeland, recently in Arad

Now dealing commercially: Georghe Toduta (left) and Sandu Albulescu of Astra Picture: Victor Must

In the 1980s, Astra, Romania's leading railway rolling stock manufacturer, helped the country fill its export quotas to the Soviet Union by designing special freight wagons strong enough to withstand Siberia's sub-zero temperatures.

Then came the collapse of communism and Comecon, the former East Bloc trading organisation, and Astra discovered that its expertise in building made-for-Siberia rolling stock was no longer of any value. To survive, Astra, like most factories in eastern Europe, had to make a radical turn to the west.

As it turned out, Astra – still owned by the state and run by its old managers – is one of the rare Romanian heavy industrial companies that is successfully making this switch. Before 1989, about 90 per cent of Astra's exports went to Comecon countries. Now, around 90 per cent of its exports go to western markets. And the company will export more than 70 per cent of the 450 wagons it expects to produce this year.

Under licence from French company De Dietrich, Astra, based in Arad, on the border with Hungary, 300 miles east of Bucharest, will begin production this year of Corail cars – top of the range passenger coaches capable of travelling at 125mph an hour – which it plans to export to western Europe, once it has built 200 for the Romanian railway company.

"It all started in 1990 when we were allowed to make contracts on our own and not through the ministry of trade or foreign trade companies as before," says Mr Sandu Albulescu, trade manager. "Until then, we were obliged to give priority to Comecon countries. Now, we make deals on a commercial basis. We had to find new markets in the west due to the severe recession in this region."

Unlike their comrades in the former Soviet Union, Astra's managers do not long for the "good old days" of central planning, but they say their new freedom has its costs.

"We prefer the current conditions – we have got rid of a lot of the bureaucracy – the party, the ministries, the trade unions," says Mr Georghe Toduta, deputy manager. During President Nicolae Ceausescu's iron reign, managers had to report production levels daily to Bucharest and, as Mr Toduta says, "the stress was much greater then".

The challenge for post-communist managers now, Mr Toduta says, is that while "the degree of freedom is much greater, so is the responsibility. If we work badly and make bad decisions, the factory will close down."

Astra already has contracts with German, Swiss, Austrian and Kazakh railways for 1,000 light oil transport wagons, a new model which it developed after 1989. To keep up with demand, Mr Albulescu says the company needs to set up a new production line for the wagon and for a similar model for heavier oil products.

Western contracts mean that Astra, which first started manufacturing rolling stock in 1891, has had to upgrade its production to meet the high technical, quality and environmental standards required by its new customers.

Under the deal with De Dietrich, the French company has begun to transfer technology to Astra in Arad where the company can draw on a pool of some 300 engineers and designers at the local rail engineering institute. De Dietrich is supplying Astra with a new production line, machine tools and components for the first 50 Corail coaches. It is also training Astra staff at its headquarters near Strasbourg.

Mr Albulescu says the company's competitive edge comes from the labour force: "Wages for skilled workers are a fraction of those in France. The average wage in this country is less than $100 a month."

He says the company has also become much tougher on its domestic suppliers, frequently sending back sub-standard goods. It sources the majority of its inputs locally with just some high-technology parts imported from abroad.

Mr Albulescu says the new technology and emphasis on quality have lifted the value of Astra's exports even though it has shed a third of its workforce, produces fewer wagons than in 1989 and is working at just 60 per cent capacity. Exports were $19.7m in 1993, up from $16.8m in 1989.

The management, which has begun a restructuring plan, says it would like to see the company privatised, preferably by bringing in a strategic partner to help it update its technology. This is likely to take some time under Romania's slow-moving, bureaucratic privatisation programme, but Mr Albulescu says De Dietrich and Bombardier of Canada are already interested.

"The west is scared that Astra will soon be serious competition," Mr Toduta says with a grin.

Japanese trade surplus forecast to fall by 6.1%

By William Dawkins in Tokyo

Japan's politically troublesome trade surplus will shrink by 6.1 per cent in 1994, the first drop in four years, according to the country's nine largest trading companies.

A survey by the Foreign Trade Council, the trading groups' industry body, predicts the trade surplus will fall to $114.3bn (£76.2bn) in the year to next March.

The forecast, a welcome sign as the US and Japan make a fresh attempt to break the deadlock in trade talks, is however a slight increase on the council's estimate in December of a $113.5bn surplus.

This reflects the fact that Japan's main foreign markets are recovering faster than domestic demand. The council based its forecast on 1 per cent economic growth this year – and that is well above average market expectations.

The surplus started to fall from the third to the fourth quarter of last year, but picked up again slightly, to the Japanese authorities' concern, in the first three months of 1994.

Exports will rise by 2.8 per cent to $376.5bn this year, the council forecasts. The yen's strength will stimulate demand for imports, expected to rise by 7.4 per cent to $262.2bn.

Semiconductor sales to US and Asian computer makers will be the star export performers, up 12.3 per cent, according to the survey. But it predicts that car exports will rise by a mere 0.4 per cent, due to the shift in production to lower-cost foreign plants.

Motorola to expand plant in Ireland

By Tim Coone in Dublin

Motorola, the US electronics and wireless communications manufacturer, has announced a I£110m (£108m) investment in the Republic of Ireland, to expand its operations serving the European market.

Its Dublin plant, making pagers and two-way radios, will be extended to include the manufacture of batteries and battery chargers, as well as crystal oscillators which are also used in the company's communications equipment.

The project has been backed by Ireland's Industrial Development Authority and is expected to create 2,000 jobs over the next five years, one of the largest projects in job-creating terms that the IDA has been able to attract to Ireland in recent years. As much as a third of the additional workforce being taken on is expected to be made up of university graduates.

Mr Dominic Layden, Motorola country manager in Ireland, said that workforce skills were an important factor in choosing Ireland.

The IDA does not release details of grant support to individual projects until the publication of its annual report but, in general, grant support tends to average about 25-30 per cent of overall investment in a project and will be directly linked to the achievement of job-creation targets.

In announcing details of the project, Mr Ruari Quinn, minister for employment and enterprise, said that the IDA had succeeded in creating nearly 4,000 new jobs in Ireland's electronics sector last year through attracting new investments, and that some 30,000 people are now employed in the sector in more than 300 companies. Output from the sector now accounts for more than a quarter of Ireland's manufactured exports.

Ruggiero backed to head WTO

By Frances Williams in Geneva

The Italian government yesterday said it would be nominating Mr Renato Ruggiero, a director of Fiat since 1991 co-ordinating the group's international activities and former Italian trade minister, as the head of the World Trade Organisation to be set up next year in succession to the General Agreement on Tariffs and Trade. Mr Ruggiero is the first publicly to throw his hat in the ring.

Sir Leon Brittan, the European Union's trade commissioner, is understood to have been notified of the Italian nomination decision yesterday. It appears possible that Mr Ruggiero will become the EU's official candidate.

Mr Ruggiero, who is 64, was Italy's trade minister between 1987 and 1991, critical years for the Uruguay Round of global trade liberalisation talks. He was one of the first to espouse the notion of a powerful world trade organisation to replace Gatt, an idea subsequently taken up by the European Union.

A career diplomat, Mr Ruggiero had a spell in the European Commission in the 1970s, where he was in charge of regional policy, and in the mid-1980s was the Italian "sherpa" for the G7 summits.

On past form Mr Ruggiero would seem to have a good chance. All the directors-general of Gatt have been Europeans. Mr Peter Sutherland, the present incumbent, was an EU nominee last year and is a former EU competition commissioner.

However, there is a growing feeling within Gatt that the time has come to break with tradition. Developing nations, who make up the bulk of Gatt members, believe they have a strong claim to provide the first WTO head. Mr Rubens Ricupero, Brazil's finance minister and a former Gatt ambassador, is being canvassed.

Australian growth rate surges to 5%

By Nikki Tait in Sydney

Australia's economic growth rate surged to 5 per cent on an annualised basis in the March quarter, well in excess of both federal government and private sector economists' forecasts.

The previous set of data, for the 1993 calender year, had indicated that the economy was growing at 4 per cent – itself the best figure clocked up for five years. But, according to data published by the Australian Bureau of Statistics yesterday, there was even stronger growth in the March quarter, with gross domestic product rising by 1.9 per cent in that three-month period alone.

The first quarter increase was driven primarily by government and private consumption, rather than business investment or net export performance.

The government's own budget estimates, published last month, suggested an annual growth rate of 4 per cent for the year to end-June, followed by 4.5 per cent in 1994-95.

News of the surging economy exacerbated worries that interest rates might have to rise fairly soon, prompting a fall in bond prices and a sharp rise in the Australian dollar. The dollar reached a 20-month high, closing in London at 74.07 US cents, up from 73.83 cents.

Interest rate policy, the pessimists argue, could become a dilemma for the government, since business investment remains at very low ebb (and actually fell in the March quarter). The government, therefore, could have difficulties restraining private consumption without choking off business expansion.

Yesterday, however, Mr Ralph Willis, the federal treasurer, claimed that there were no signs that inflationary pressures were increasing, and hence that the data had no implications for interest rates.

"One can determine movements in interest rates as when we see a likely pick-up in inflation. We are not looking at anything here which shows you some pick-up in inflation," he said. The government was still comfortable with its inflation forecast of around 2 per cent in 1993-94, Mr Willis added.

The treasurer also noted that the "early" Easter had affected consumption data, and contributed to the unexpectedly high growth figure.

The federal government meanwhile announced yesterday that it had reached agreement with the Australian Council of Trade Unions, the umbrella body for labour organisations, on minimum national wage increases to apply in 1994 and 1995. The deal was reached under an accord unveiled in early 1993 and the latest in a series of compacts between the ruling Labor government and Actu.

The agreement provides for a A$16-a-week "safety net" wage rise to be paid to low income earners, spread across two years. This follows an A$8 "safety net" increase awarded in last October's national wage decision – representing a A$24-a-week wage rise over three years for workers who are not covered by individual "enterprise-based" agreements.

Mr Paul Keating, prime minister, said the deal should "deliver wage restraint that will lock in the low inflation rate". But the Australian Chamber of Manufacturers attacked the deal, saying the across-the-board rises, unrelated to productivity gains, would discourage business from employing more people or investing.

UN meeting on N Korea reactor rods

By John Burton in Seoul

The US, South Korea and Japan will consult tomorrow at the United Nations to discuss their response to North Korea's refusal to allow full international inspection of its nuclear programme.

North Korea has so far failed to comply with a statement issued by the UN Security Council on Monday urging it to stop removing spent fuel rods from its 5MW reactor.

The International Atomic Energy Agency wants to select and examine the spent nuclear fuel to determine whether North Korea has diverted plutonium from the reactor for its suspected nuclear weapons programme.

In an apparent show of force, North Korea on Tuesday conducted a test launch of a domestic version of the Chinese-designed Silkworm anti-ship missile.

Meanwhile, South Korean armed forces were placed on a routine high state of alert following the departure of President Kim Young-sam on a week-long visit to Russia and Uzbekistan.

North Korea may be within days of completing the removal of the fuel rods and ending any chance of the IAEA conducting an independent analysis of them to trace past nuclear activities.

The US has warned if North Korea passes this threshold, its negotiations with Pyongyang will be broken off and Washington will ask the UN Security Council for economic sanctions against the North.

The North has warned that sanctions would be considered "an act of war".

The IAEA on Tuesday urged North Korea to accept "technical options which might still at this late stage of discharge... preserve the agency's ability to verify the history of the [reactor's] core."

The IAEA rejected North Korea's proposed procedures to select and store the fuel rods for later examination, explaining that it "would not enable the agency to identify" where the rods had been located in the reactor core.

"Without such identification, future measurements [of the fuel rods] would be meaningless and the agency's ability to verify non-diversion would be lost," it said.

North Korea is putting the discharged fuel rods into a storage tank "after writing the location and serial numbers on the rods, with monitoring cameras operating", a North Korean diplomat was quoted as saying in Vienna.

The IAEA will be able to examine the fuel rods once North Korea and the US conclude a package deal on diplomatic normalisation and economic aid, he added.

North Korea is refusing the IAEA's demands because it claims a special status under the nuclear safeguards treaty since it has only "suspended" its threatened withdrawal from the treaty last year.

New central bank governor wants to make island a regional financial centre

Taiwan promised liberalised markets

By Laura Tyson in Taipei

Taiwanese opposition member Su Chih-yang (left) perches on the podium in the National Assembly in Taipei yesterday, and other opposition members pull the hair of a clerk to stop her reading an agenda, in a dispute over the size of the quorum. AP

Taiwan's new central bank governor, Mr Liang Kuo-shu, took over yesterday with a pledge to liberalise Taiwanese financial markets with the aim of transforming the island into a regional financial centre during his five-year term.

He promised to push on with reforms in order to upgrade Taiwan's regulatory framework and bring more foreign financial institutions, capital and expertise into the country.

Mr Liang – who in his previous position as chairman of Chiao Tung Bank, a state-owned development institution, last year scuppered a planned joint venture between British Aerospace and Taiwan Aerospace to produce short-haul passenger jets – vowed to boost lending to local manufacturing and industry.

The accession of Mr Liang, 63, who holds a doctorate in economics from Vanderbilt University in the US, to the top banking job is viewed favourably by analysts and bankers. His experience in commercial banking was acquired during stints at the helm of each of the three leading state-run commercial banks. Mr Liang also served as deputy central bank governor from 1975 to 1979.

Known for speaking his mind, Mr Liang might have become central bank governor several years ago had he not made enemies along the way. Soft-spoken but strong-willed, he is likened by one financial sector operator in Taipei to a "thunderstorm" when angered.

His predecessor, Mr Samuel Shieh, at times become embroiled in public stand-offs with the Finance Ministry and other government agencies. However, Mr Liang has close personal ties to President Lee Teng-hui, under whose auspices the central bank falls. He has been a financial adviser to Mr Lee for some time. Mr Liang's wife, Ms Hou Chin-ying, is an economics professor and belongs to one of Taiwan's most influential families.

Analysts cautioned that while Mr Liang was firmly in the camp of the reformers, it would be difficult to change quickly the thinking of the central bank bureaucracy.

Saying that "we have to invite more international financial institutions to introduce more financial products to Taiwan", Mr Liang told a news conference yesterday: "To do so, we have to accelerate revising many out-of-date rules and establish new systems to attract them.

"The first step is to expand our foreign exchange market as a regional funding centre."

Resignation of party leader may help Hata

By William Dawkins in Tokyo

A leading member of the Japanese minority coalition is to resign his party post because of supporters' anger over his part in the Socialists' departure from the government.

Mr Keigo Ouchi said yesterday he would step down as chairman of the Democratic Socialist party, a small centre-right party, because of criticism over his support for the recent behind-the-scenes creation of a conservative alliance called Kaishin (innovation). He will, however, stay on as health and welfare minister.

The gesture is a step in the government's strategy of trying to win back the much larger Social Democratic party, the key to its hopes of surviving for more than a few months.

The walk-out by the socialist SDP in April, in protest at what it saw as a conservative bid to dominate policy, deprived the government of a majority, so paralysing such crucial but controversial legislation as plans for a permanent cut in income tax and a rise in sales tax. Without the socialists' support, Mr Tsutomu Hata, prime minister, had at the latest count just 202 seats in the 511-seat parliament, 54 short of a majority.

Mr Ichiro Ozawa, a close and powerful ally of Mr Hata, is generally accepted as the inspiration for Kaishin.

Even so, Mr Ouchi's move is likely to help assuage socialist ire, the latest in a series of surprisingly favourable developments for the five-week-old Hata administration.

Socialist leaders have hinted in recent days that they might consider rejoining the coalition if Mr Hata first resigned, in a symbolic act of contrition for allowing the Kaishin grouping to be formed, and then stood again for the leadership.

The prime minister's recent decision to freeze a planned rise in utility prices has gone down well with SDP supporters. He yesterday vowed to produce plans this month to streamline the administration and cut state spending, another popular policy.

Japanese businesses will welcome any sign that Mr Hata can delay another political crisis. They need a stable government to engineer a recovery and resolve the trade dispute with the US, on which the yen's value partly hangs. Yesterday's restart of shelved trade talks in Washington has done no harm to Mr Hata's standing in that respect.

The new government has also managed to unblock progress on the long-delayed national budget for the current year, another obvious concern for business. This is now heading for passage this month.

But to unfreeze the budget,

Hata: price freeze popular

Mr Hata has riskily had to agree to opposition demands to step up a parliamentary inquiry into political corruption. This will probably entangle Mr Ozawa and so risk giving the opposition an excuse to initiate a no-confidence vote.

The three main opposition parties, the Liberal Democratic party, SDP and Communists, yesterday agreed that Mr Ozawa should be called to testify before parliament on allegations of illicitly receiving political funds from construction companies. Their demand is hard to resist, given the government's minority position.

Manila GNP up 4.8% in quarter

By Jose Galang in Manila

Philippine gross national product grew by 4.8 per cent in the first quarter over the comparable period last year, a leap from the previous 0.3 per cent rise, government data published yesterday show.

The growth rate surpassed earlier estimates of 3 to 3.5 per cent, and gave rise to expectations of exceeding the 4.5 per cent target for all 1994.

The report confirms recent observations of a revival in the Philippine economy, following enhanced political stability and an end to the electric power shortages that bedevilled industries last year.

The policy-setting National Economic and Development Authority said a surge in industrial activity, along with increased remittances from Filipinos working overseas, spurred the first-quarter advance.

The internal economy, as measured by gross domestic product, went up by 3.8 per cent, a turnround from a 0.01 per cent decline the year before.

Industry output rose 7.6 per cent, behind brisker activity in construction and manufacturing. This is largely attributed to the restoration of normal electric power supply during the period, in contrast to the power disruptions of up to 10 hours a day last year.

A number of new power stations were put up last year, mostly undertaken by private groups under build-operate-transfer schemes with the government to plug the supply shortages.

The agriculture and fishery sector provided the dampener, declining by 0.9 per cent in the quarter as the effects of the typhoons that pummelled many parts of the country in late 1993 lingered in the first three months of 1994.

Mr Cielito Habito, Socio-Economic Secretary, said with the early onset of the local rainy season the agriculture sector should be able to recover and help "further accelerate GNP growth".

OECD pressed on Pergau Dam document

No political reason behind the delay, says directorate official, **Jimmy Burns** reports

The Organisation for Economic Co-operation and Development was yesterday coming under pressure to publish a long-delayed report thought to be critical of the controversial Pergau Dam project.

Mr Bernard Wood, director of the OECD's Development Corporate Directorate, justified the delay on "production difficulties" and said there were no other "sinister" or "political" reasons behind it.

But the World Development Movement, a lobby group for the Third World which has strong parliamentary backing, described the delay as "extraordinary", given the continuing public interest in debating the Pergau project.

The OECD has been officially reluctant to fuel the trade row between the UK and Malaysia by being drawn publicly into the Pergau project.

Privately however, some senior OECD aid officials are believed to be sympathetic with the domestic UK criticism of the Pergau project which involved a linkage between aid and military contracts.

The OECD report is thought to have identified the conflict of interests that arose in the decision by the British government to approve the Pergau project after overruling advice from its own civil servants responsible for aid.

The Overseas Development Administration, the government department responsible for overseeing the UK's aid programme, said: "We are happy for the OECD report to be published as soon as possible."

An ODA official said it was pressing the OECD to explain what the production difficulties involved.

The OECD's report was completed in March, following a critical review from Finnish and Belgian examiners appointed by the organisation's development assistance committee (DAC). A draft report was circulated soon afterwards and approved by member countries with minor amendments to its wording.

In the OECD's latest newsletter, Mr James Michel, DAC chairman, refers to strong support among members for the principle that all aid be subjected to the full standards of normal assessment, and that "aid quality should predominate" in decisions.

A report by the House of Commons foreign affairs committee is in process of being completed and is due to be published before the start of the summer.

Kieran Cooke adds from Kuala Lumpur: After several months' negotiations, Malaysia says it is ready to sign an agreement with Russia on the sale of 18 MiG-29s for use by the Malaysian air force.

Mr Najib Abdul Razak, Malaysian defence minister, said the purchase agreement would be signed with the Russians next Tuesday.

Malaysia originally announced plans to buy the MiGs in the middle of last year. But final negotiations were complicated by Malaysia's wish for extensive technology transfer and a stipulation that part of the purchase would be paid for in palm oil.

It is believed about a quarter of the $615m (£410m) cost of the MiGs will be covered by Malaysian palm oil exports to Russia. The Russians are said to be offering a maintenance and training package with the MiGs. Malaysian companies will also be involved in some parts manufacturing for the fighters.

The first MiGs are likely to be delivered to Malaysia by mid-1995. The deal is the first big arms sale by Russia in the Asean region.

Malaysia's armed forces are going through an extensive modernisation programme.

Britain, Iran exchange diplomat expulsions

By Roger Matthews, Middle East Editor

Relations between Britain and Iran deteriorated further yesterday as both governments announced the expulsion of a diplomat.

The Foreign Office in London yesterday made public its decision to expel Mr Vahid Belourchi, a first secretary at the Iranian embassy, for allegedly distributing forged documents about British policy in Bosnia. Iran had been told of the British decision last week, when it was agreed that no publicity would be given to the expulsion in the hope of avoiding further repercussions.

However, Tehran said yesterday it was retaliating by expelling Mr Hamish Cowell, the deputy head of the British mission in Tehran. No further official explanation was offered by the Iranian government, but Iranian newspapers linked the expulsion to "extensive British propaganda against Iran, designed to please the US".

The latest downward turn in relations between the two countries began in April when Britain accused Iran of establishing links with the IRA, and of planning to provide weapons and training for Irish republican extremists. Iran denied that any contacts had taken place and suggested instead that a listening device had been found implanted in the wall of its refurbished embassy in London.

The Foreign Office said the Iranian diplomat had been asked to leave "because members of the Iranian embassy had been involved in attempting to distribute forged documents purporting to show that Britain's policy in Bosnia was directed against the Moslems".

Iran has become frustrated at its inability to aid Moslems in Bosnia and the refusal by western powers to accept the deployment of Iranian peacekeeping forces in the former Yugoslavia.

The regime in Tehran also believes that Britain is playing a key supporting role in the US policy of denying Iran access to international financial markets at a time of growing economic difficulties in the Islamic republic.

UN index points way to future civil wars

Canada tops quality of life assessment, but many other countries are heading for disaster, reports **James Harding**

Persistent threats from hunger, violence and illness to individuals' security in their daily lives are the root cause of increasing numbers of internal conflicts worldwide, according to a report released yesterday by the United Nations Development Programme.

The Human Development Report 1994, the fifth annual assessment of quality of life in 173 countries, draws its conclusions from its key instrument, the Human Development Index (HDI). A total of 17 countries are heading for the kind of national breakdown witnessed in Somalia as a result of critically low levels of human development, it says.

The HDI, which ranks countries by a measure combining life expectancy, educational attainment and basic purchasing power, is intended to add another dimension to World Bank reports on economic indicators by seeing how economic growth translates into people's lives.

This year, Canada tops the HDI list – scoring 0.932 on a scale of 0 to 1 – up from second place behind Japan in 1993, and Barbados, on 0.894, is ranked first for developing countries. A new measure showing HDI progress between 1960 and 1992 reveals that among the 114 countries where data were available, Malaysia, Botswana, South Korea, Tunisia and Thailand showed the most progress.

Life expectancy in the developing world rose from 46 years in 1960 to 63 years in 1992 and the infant mortality rate was halved. The adult literacy rate in the same countries increased from 46 per cent to 69 per cent.

But Afghanistan, Angola, Haiti, Iraq, Mozambique, Burma (Myanmar), Sudan and Zaire face disaster as a consequence of critical levels of socio-economic deprivation. A bloodbath has happened in Rwanda while other countries which could face national breakdown include Algeria, Burundi, Ivory Coast, Liberia, Nigeria and Sierra Leone.

Of the 82 conflicts between 1989 and 1992, 79 wars have been within nation states and the report argues that national collapse has tended to follow persistent threats to the human security of the people. In the 1980s, military spending to social spending ratios were among the highest in Iraq (8:1), Somalia (5:1) and Nicaragua (3.5:1).

Current patterns of aid distribution promise little remedy. Many nations have sacrificed human security for more sophisticated weaponry. India ordered 20 advanced MiG-29 fighters at a cost that could have provided basic education to all the 15m girls now out of school, the report says. Though global military spending has been falling 3.6 per cent a year since 1987, the cumulative "peace dividend" estimated at $935bn (£623bn) has not been harnessed for human development needs.

Patterns of development funding still bear the scars of the cold war, reflecting donors' strategic interests rather than development requirements. On average, high military spenders receive about 2½ times as much per capita as low military spenders. El Salvador, for example, gets 16 times more aid per person than Bangladesh, even though Bangladesh has just half the per capita gross domestic product.

The report suggests new financial arrangements for human development to be put into action at the World Summit for Social Development in March 1995, hosted by Denmark on behalf of the UN.

The core proposals are:

● A cut of 3 per cent a year in future global military spending, with a fifth of the savings by rich nations and a tenth by poor nations earmarked for global human security.

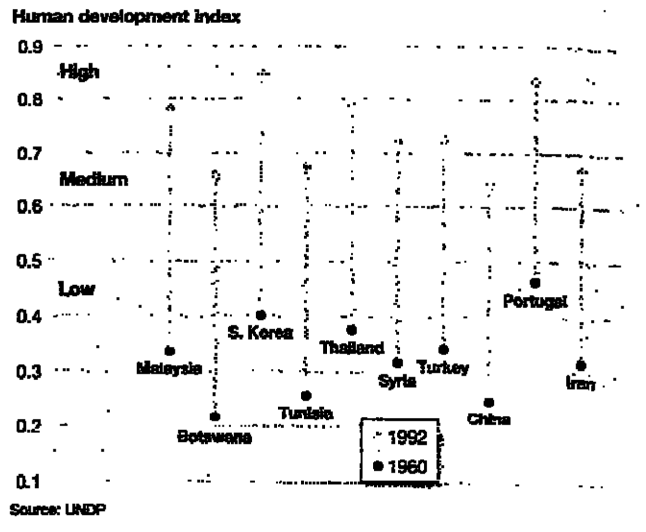
● A global compact to provide basic education, primary health care, safe drinking water and family planning services by earmarking at least 20 per cent of the existing developing country budgets and 20 per cent of donor aid allocations to these human development projects.

● A global human security fund, financed from means such as a tax on the speculative movement of international funds, as suggested in a contribution to the report by Professor James Tobin, 1981 Nobel prizewinner for economics.

The report also proposes the establishment of an Economic Security Council in the United Nations to become the highest decision-making forum to consider issues such as poverty, unemployment, food security, drug trafficking, pollution and population migration.

The Human Development Report. Oxford University Press, 2001 Evans Rd, Cary, NC 27513, US. Telephone (919) 677 0977, fax (919) 677 1303. Price $17.95

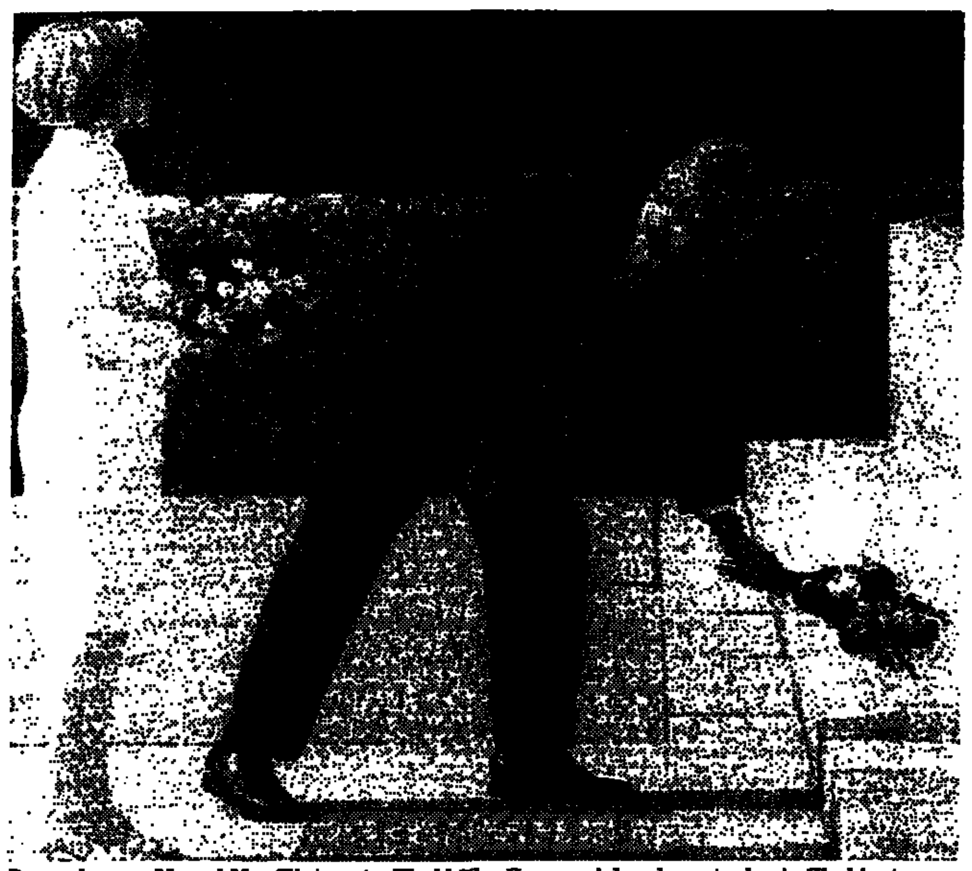
Biggest advances in human development, 1960-92



Source: UNDP

Every day is Clinton's D-Day

Jurek Martin tells of misgivings as the US president visits Europe



Remembrance: Mr and Mrs Clinton at a World War II memorial early yesterday in Washington Reuter

This ought to have been one of Bill Clinton's easier trips abroad. When he made his maiden presidential voyage to Europe in January, he was a man with a discernible and difficult mission – to set Nato on a new path and to stiffen the forces of reform in Russia – and at least he achieved mixed results.

This time, nothing on the agendas with the Italian, British and French governments, and even the Pope, compares in weightiness, unless it be Bosnia. Instead, his principal purpose is ceremonial, to represent his country at the commemoration of the 50th anniversary of the Normandy landings.

But there is an edgy sense of foreboding in the Clinton camp about the week that begins in Rome today and then hops back and forth across the English Channel. This is a president with a multitude of problems on his back. His opinion poll ratings have started to slip again, a White House aide has resigned for improper use of the presidential helicopter, his personal life and character are under legal and populist attack, his foreign policy (on his own admission) is subject to "relentless criticism", and the centrepiece of his domestic programme, healthcare reform, has just been deprived of the full services of the redoubtable Congressman Dan Rostenkowski.

The last thing Mr Clinton needs in these circumstances is a foreign foray that can be portrayed as a foul-up by increasingly hostile US media eager to pounce on any pratfall. In this respect, the ceremonial aspects of this visit are the most fraught with danger.

To put it crudely, the concern is whether Mr Clinton – who never served in uniform, was born three years after D-Day and opposed the Vietnam conflict – can play the public part of commander-in-chief as well as did President Reagan on the Normandy beaches 10 years ago, even though he fought the last war in the studios of Hollywood.

Late changes in Mr Clinton's itinerary demonstrate high sensitivity by White House planners. His first British landfall is to be at Cambridge, where there is a US military cemetery, not, as first intended, at Oxford, from where in 1969 he wrote his famous letter explaining why he did not want to be drafted.

Every move he makes will be watched for signs of unease or disaffection between him and the old soldiers gathered to celebrate a great expedition; Mr Clinton's natural milieu is not that of men in uniform, nor do such men mix easily with him.

The White House is also patently nervous about his treatment in the British press, particularly its lurid emphasis, far greater than most of its US counterparts, on the sexual harassment suit against him. Aides recently surveyed several weeks of UK cuttings and found virtually nothing positive. They fear an eruption of bimbo stories while Mr Clinton is in Britain – but at least they now accept that would not be orchestrated by Conservative Party central office.

Even the session with the Pope today is not risk-free from a media standpoint. Mr Reagan was once able to nod off with impunity in a Vatican exchange but the pontiff is expected this time to complain loudly about US abortion policies, specifically the more liberal approach the US is recommending for adoption at the UN population conference in Cairo in September. The nuances of any presidential meeting with new neo-fascist members of the Berlusconi government of Italy will also be closely watched.

Beyond the particular and the ceremonial, Mr Clinton must have a broader purpose in all his public comments while in Europe – which is to give a sense that he does have a coherent foreign policy. Mr Henry Kissinger, whose own reputation for a cool, calm and collected strategic vision has just taken a fearsome battering in H R Haldeman's diaries of the first Nixon persidential term, was still able to write, in the current Newsweek magazine, in terms that resonate in Washington and around the world.

"Will we be driven to decisions in a way that makes us appear weak and rudderless – and tempts intransigent foreign leaders to test us – or can we formulate a basis of US policy that allows us to anticipate the challenges of the new international situation before they erupt into crisis? Most of the administration's shortcomings are remediable ... but answering that basic question requires more discipline, organisation and focus than has been demonstrated so far."

Senator Sam Nunn of Georgia, chairman of the Senate armed services committee, was more to the point. Mr Clinton "is involving himself more, and that is essential. But we expect too much of the president... If he's not going to spend a great deal of time on foreign policy he's got to designate one person to be in charge – and that hasn't happend yet."

The target of both was Mr Warren Christopher, secretary of state, now under fire yet again for what is seen as bungling of policy on China. But the president told the Los Angeles Times last Friday: "The last thing I need to be doing is considering changing my team." Mr Christopher is going to be doing most of the technical heavy lifting on this European trip, after Mr Clinton has returned home, at ministerial meetings of the Organisation for Economic Co-operation and Development, Nato and the North Atlantic Co-operation Council on three consecutive days.

To be fair, Mr Clinton, whose decision-making processes can be as agonisingly slow as his mind and mouth can be fast and loose, recognises the problem – "lack of confidence in me," he told the Los Angeles Times. He has also begun to speak more frequently about the US role in the world – on Monday, for example, equating past sacrifices and present challenges.

Clear contradictions persist, even so. The recent presidential directive on peace-keeping was more intent on defining where US troops would not be used rather than where they might. Yet the administration seems to be now investigating an invasion of Haiti, mostly on the grounds that it is in the US backyard and because the domestic pressure for intervention has been rising.

If US critics are frustrated, and if the Senate is so confused that it passes contradictory motions on the Bosnian arms embargo, it is hardly surprising that a rudderless Europe, accustomed to the lead and protection of the US, wonders what to expect.

Presidential foreign trips are usually good for domestic ratings. But, this time, Mr Clinton had better not put even the occasional foot wrong on a beach, in a pub, or in palaces and boats beyond number.

Indictment seen as a blow to 'politics the old-fashioned way'

Congressman Dan Rostenkowski has never made any secret of his belief that he is worth a great deal more than his congressional salary of $133,600.

"In being shy about declaring our worth in an honest way," he said some years ago in a rare speech on the floor of the House of Representatives defending a pay rise for members of Congress, "all we are doing is reinforcing the impression that that is all we are worth."

He has frequently taken steps to stretch his congressional salary: in 1990, before new rules on members of Congress accepting fees for speeches to private groups, Mr Rostenkowski set a record with $310,000 of honoraria.

Other members have their own techniques for making a dollar go further. Congressman Newt Gingrich of Georgia, the deputy Republican leader and one of the House's most outspoken critics of ethical lapses, uses a private political action committee to finance his trips to lengthy seminars and brainstorming sessions in holiday resorts.

Mr Rostenkowski could have retired in 1992 and pocketed more than $1m from his campaign funds perfectly legally under now-expired rules that left long-serving members of Congress subject to older, looser campaign finance restrictions.

But a 17-count indictment filed in Washington DC on Tuesday by the US prosecutor charges that Mr Rostenkowski's efforts to stretch his salary went far outside the law.

"The allegations contained in today's indictment," said Mr Eric Holder, the US district attorney, "represent a betrayal of the public trust for personal gain. Mr Rostenkowski used his congressional office to perpetrate an extensive fraud on the American people."

Among other charges, Mr Rostenkowski is accused of drawing cash in exchange for stamp purchase vouchers at the House of Representatives post office, of padding his congressional payroll with people whose tasks were to mow the lawn at his holiday home in Wisconsin or take photographs at his daughter's wedding, and of buying expensive gifts for friends and political allies on his office stationery account.

Mr Holder rejected suggestions that Mr Rostenkowski, who has sat in the House for 35 years, was simply doing business the old-fashioned way.

"This is not, as some have suggested, a petty matter.... This was not conduct that was ever acceptable," he said.

Every aspect of Congressman Rostenkowski's personality and career reflected the old ways, writes George Graham

Yet every aspect of Mr Rostenkowski's personality and career represent politics the old-fashioned way, and that is the main reason why the sweeping indictment filed on Tuesday caused such distress among his fellows on Capitol Hill.

Congressman Charles Rangel, a colleague on the Ways and Means committee which Mr Rostenkowski has chaired for the last 13 years, said yesterday that the indictment had "hurt the committee and the Congress".

"He is the best there is," added Congressman Michael Andrews of Texas, another member of the Ways and Means committee, in which all US tax legislation must start.

What made Mr Rostenkowski so good was his ability to gauge exactly how far each member could be pushed or pulled to put together a majority for legislation.

Even political opponents, such as Mr Gingrich, acknowledge Mr Rostenkowski's skill at getting bills through the House.

That skill existed before he took the Ways and Means chairmanship – then-Speaker Tip O'Neill relied on him in the 1970s to take the pulse of the House on important issues – but it has been reinforced by his ability as chairman to return favours and settle scores.

Congressman Sam Gibbons, a courtly 74-year-old Floridian who took over the chairmanship yesterday after Mr Rostenkowski's indictment, has neither his predecessor's political sense nor his ruthlessness.

But dire predictions that Mr Rostenkowski's fall would doom the Clinton administration's efforts to draw up healthcare reform legislation have, as is usual in Washington, been exaggerated.

The heart of the healthcare battle is, in any case, the Senate, not the House, and particularly the Senate Finance committee, the House Ways and Means' counterpart.

The tax lawyers who throng the lobbies outside the Ways and Means and Finance committee rooms always complain that everything will fall apart under a new chairman; yet business continues.

Similar forebodings prevailed a year and a half ago when Senator Pat Moynihan took over the chairmanship of the Finance committee from Mr Lloyd Bentsen, who left Congress to become Treasury secretary.

Although Mr Moynihan has not been exactly the chairman the White House might have hoped for, thwarting the administration on several issues, he has certainly not been an incompetent flop.

The same is likely to be true of Mr Gibbons. The institution of the Ways and Means committee carries an authority that transcends each successive chairman.

That is, perhaps, as Mr Rostenkowski, long one of the staunchest defenders of Congress as an institution, would like it.

Industrial price increases revive fears of inflation

By George Graham in Washington

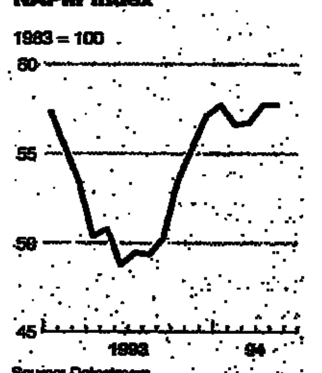
A new survey from the National Association of Purchasing Managers yesterday showed prices in the manufacturing sector continued to rise last month.

The NAPM said its composite index of activity in the manufacturing sector remained steady last month at 57.7, the same as April and a level that generally indicates an expanding economy.

But another sharp jump in the price component of the closely watched survey helped to revive inflation fears in a nervous bond market. The NAPM price index rose last month to 71.5, its highest level in four years and a marked increase from 63.2 in April and 49.9 six months ago.

"Economic growth continued at the same strong rate in May as in April, resulting in the broadest increase in manufacturing employment since late 1988 and the most widespread price increases paid by the manufacturing sector since October 1990," said Mr Ralph Kauffman, chairman of the NAPM's business survey committee and manager of procurement at Oryx Energy.

NAPM index



Source: Datastream

Although the price index showed a sharp increase, economists cautioned that that does not necessarily indicate sharply higher prices. Rather, the survey assesses how widespread higher prices are across the economy by measuring the percentage of purchasing managers questioned who reported that they were paying higher prices for their raw materials.

Nevertheless, some analysts said the NAPM's supplier deliveries index rose in May to 60.7, its highest level in six years, pointing to the difficulty suppliers are experiencing in meeting their customers' orders. Although some of this increase may be attributed to a road hauliers' strike, it could also herald price pressures.

Many stock market economists had anticipated an increase in the broader composite NAPM index, so yesterday's stable result provided less fuel for fears of overheating in the economy.

Meanwhile, the Commerce Department reported that construction spending rose in April by 0.6 per cent to a seasonally adjusted annual rate of $508.5bn. The department also revised upwards its estimate of March construction spending to an annual rate of $505.4bn, a 1.9 per cent jump from February.

Jamaica likely to help with US processing of Haitian refugees

By George Graham in Washington

Jamaica was expected to announce yesterday that it will allow the US to set up facilities to process refugees from Haiti, becoming the first country to help the US out of its predicament over the Haitian boat people.

Mr Strobe Talbott, US deputy secretary of state, was to arrive in Jamaica yesterday for talks with the government, and US officials said an announcement was likely later in the day.

The most probable arrangement would involve anchoring a large vessel, possibly a US naval hospital ship or a chartered Ukrainian cruise ship, in a Jamaican port to serve as a processing centre.

Haitian refugees picked up by the US Coast Guard as they attempted to cross to the US by boat would have their asylum claims handled there.

Those deemed to have a well-founded fear of persecution would be transferred to the US mainland or to the US military base at Guantánamo Bay, on the island of Cuba.

Others would be returned to Haiti.

The Clinton administration recently modified its policy on Haitian refugees in response to intense domestic and international pressure, abandoning the practice of automatically returning all refugees to Haiti without hearing their asylum claims.

LA police in mass absenteeism

Hundreds of Los Angeles police officers called in sick again yesterday, the third day in a row of mass "sick-outs", as an acrimonious contract dispute with the city continued, AP reports from Los Angeles.

Mayor Richard Riordan has urged the officers to accept mediation. The Police Protective League, the officers' union, did not favour this but was expected to reply later yesterday to the mayor's offer.

Only 105 of the 317 officers and sergeants scheduled for the early shift yesterday arrived, the police department said.

Officers from the Tuesday evening shift were kept at work to cover.

The city estimates that the "sick-outs" are costing it nearly $1m (£662,000) a day in overtime.

The city has nearly 7,700 officers who have worked without contract for two years. Los Angeles has been reluctant to offer police more money because of budget constraints. Last week, they rejected a 6 per cent rise over two years.

Starting pay for a new officer is $33,157 a year.

Chileans start US trade talks

By David Pilling in Santiago

Preliminary talks about the possibility of Chile's accession to the North American Free Trade Agreement, or of a bilateral trade accord with the US, are due to start in Washington today.

Discussions between the five-member Chilean mission and the US trade representative's team will focus on investment protection issues. Although Chile has signed investment protection agreements with several countries, a US official doubted whether these met the stringent criteria demanded by Washington.

Mr Eduardo Aninat, Chile's finance minister, stressed that today's talks were strictly technical and that formal negotiations could not begin until the US Congress had passed enabling, fast-track legislation. Once that had been done, Mr Aninat expects negotiations will proceed much more rapidly than they did with Mexico. "We can learn from the Mexican negotiations," he said.

The US administration hopes to add fast-track to ratification of the Gatt Uruguay Round, now before Congress, but controversy over approval of the round could overshadow discussion of Chile.

The Clinton administration, which has repeatedly stressed its commitment to sign an accord with Chile, has not yet decided whether this should take the form of a bilateral agreement or full access to Nafta.

Canada, now the second most active foreign investor in Chile after the US, has pushed for Chile's integration to Nafta. Mexico, which already has a free trade agreement with Chile, in principle favours extending Nafta to other Latin American states.

The AFL-CIO, the US labour organisation, has come out in favour of a bilateral accord on the grounds that protection of labour rights contained in Nafta is not sufficiently rigorous. Mr Richard Gephardt, Democratic leader in the House of Representatives, has proposed that labour clauses be written into the text of any agreement with Chile rather than negotiated as side issues.

Move to Euro-plugs could cost billions

By Jenny Luesby

British consumers face costs of £78m a year for 40 years if the UK backs a changeover to continental European electrical plugs and sockets, according to an independent report commissioned by the Department of Trade and Industry.

The report by the Building Services Research and Information Association estimates that a "big bang" changeover, backed by legislation, would cost consumers:

- £56m a year for rewiring.
- £7m a year for the replacement of old plugs.
- £15m a year in conversion costs passed on to the consumer by industry.

An alternative would be a voluntary changeover, which would take longer but be cheaper to the consumer, at an estimated cost of £19m a year over the next 40 years.

The DTI commissioned the report because it is considering whether appliance manufacturers should be required to fit British or continental European plugs to products sold in the UK. It makes little sense to fit appliances with British plugs if a changeover to European standards is only just around the corner.

Cenelec, the European standards-making body, was yesterday meeting to approve the final draft of the standard for harmonised plugs and sockets across Europe. The standard will then go to national standards councils for approval.

In assessing the overall benefits of a changeover, the Building Services Research and Information Association concludes that the Cenelec system would eventually mean cheaper plugs, but the consumer unit - at the point that the mains electricity enters the home - would be more expensive.

British homes are wired in rings, with the numerous sockets on each ring made safe through a fuse in every three-pin plug. The continental European system is a radial system. Each socket is connected directly to the consumer unit by its own lead, removing the need for fuses in the two-point plugs, but also preventing the fitting of different fuses to suit each appliance.

To convert to the European system, every house in the UK would need to be rewired.

Once the transition is complete, appliance manufacturers would need to fit only one type of plug to supply markets throughout Europe. Consumers would also save on any purchases of loose plugs.

But building contractors would face higher costs in installing the new type of consumer units, and the makers of plugs, sockets and leads for the British market - which currently benefit from a protected market - would face much greater competition.

Tax threat warning to pension funds

By Philip Coggan, Economics Correspondent

Abolition of the tax credit on dividends would "blow a £50bn hole in pension funds", says research published today by Kleinwort Benson, the merchant bank.

City concern about government taxation policy has risen in the wake of speeches from Mr Stephen Dorrell, the financial secretary to the Treasury, linking high dividend payouts to a lack of UK investment.

Investors fear that the tax credit on dividends, which was cut from 25 per cent to 20 per cent in the March 1993 Budget, might be reduced further or even abolished altogether.

"Abolition of the tax credit on dividends would slash 20 per cent off the gross yield on the UK equity market," says Kleinwort Benson. The average pension fund holds 56 per cent of its assets in UK equities, and so such a change would knock about 11 per cent off the actuarial value of the fund.

As the current market value of UK pension funds is about £500bn, this would create a shortfall of about £50bn.

Kleinwort says UK companies would have to increase pension-fund contributions to fill this hole, which would reduce their ability to invest. The fall in equity markets that would follow would also make equity funding more expensive.

Rover increases output by 26%

By Kevin Done, Motor Industry Correspondent

Rover increased car production by 26 per cent year-on-year in the first quarter, according to figures from the Society of Motor Manufacturers and Traders.

Overall UK car output was virtually unchanged in the first three months at 362,536, a decline of 0.5 per cent from the same period a year ago.

Higher output by Rover, the leading UK vehicle maker and a subsidiary of BMW of Germany, together with the rapid build-up of production by Toyota and Honda at their UK assembly plants, helped to offset declines at Ford and Vauxhall and a sharp fall at Nissan.

The rise in Rover output has been driven by the introduction of its Rover 600 executive car range, launched last spring, as well as by rising sales of the Land Rover Discovery and the Rover 200/400. The company recently introduced a Sunday shift to increase output of the 200/400.

Production at Nissan's £900m Sunderland plant fell by 45 per cent year-on-year in the first quarter. The company was forced to halve production for nearly four months until early March in order to cut stocks and bring output into line with lower demand in continental Europe.

Luxury carmaker Jaguar, a subsidiary of Ford of the US, and Rolls-Royce Motor Cars, a subsidiary of Vickers, the UK engineering group, are both regaining ground lost during the US and UK recessions.

Jaguar, which increased output by 42.5 per cent last year, raised production by 11 per cent year-on-year in the first quarter, while the maker of Rolls-Royce and Bentley cars increased output by 44 per cent in the first three months.

Production of commercial vehicles has begun to rise slowly, albeit from a very low level. Output in the first four months was 5 per cent higher than a year ago.

Willie Carson steered 7-2 favourite Erhaab to win a sprint finish to the Derby at Epsom, southern England yesterday. Pictured leading after the final bend is Mister Baileys, with Erhaab in the middle of the chasing pack. Erhaab won £470,000 for owner Hamdan Al-Maktoum in the biggest event in the flat racing calender, beating King's Theatre (14-1) with Colonel Collins (10-1) third and Mister Baileys (14-1) fourth. The horse is trained in England by John Dunlop. Bookmaker Ladbrokes reported turnover up 20 per cent on 1992 and 50 per cent on last year when a popular favourite depressed the market. Some 5m British punters staked up to £40m on yesterday's race.

Work tensions increasing, says conciliator

Tensions are increasing in the workplace because of growing pressures on business in Britain's economic recovery, Acas, the independent conciliation and arbitration service, warned yesterday, writes Robert Taylor.

The service said the number of conciliation cases had reached record levels for the third consecutive year. There had been a 4 per cent rise in such cases to 75,181 from 72,166 in 1992.

"If not channelled into creative ends, these tensions could increase the level of conflict. Often during 1993 managements were compelled to deal with immediate pressures rather than managing change in a positive way. In such situations tensions were almost inevitable," it said.

Mr John Hougham, chairman, said: "Industrial tribunal work shows no signs of any downward trend. We remain very busy."

In 67 per cent of cases a settlement was reached or an application to an industrial tribunal withdrawn. Only one in three cases proceeded to an industrial tribunal. As many as 62 per cent of cases concerned unfair dismissal. There were 1,852 race discrimination cases, the highest ever and a 6 per cent increase from 1992. Sex discrimination cases totalled 5,772, six fewer than in the previous year.

The government has announced that Acas's budget is to be cut by nearly 15 per cent over the next four years from £23m in 1993-1994 to £20m in 1996-1997.

Britain in brief

Social chapter 'opposed by big companies'

Britain's big companies are overwhelmingly opposed to the social chapter of the Maastricht treaty, according to a Gallup poll for the Conservatives.

The survey of 301 top companies also reveals strong opposition to proposals by the European socialist group for a minimum wage and cuts in working hours to reduce unemployment.

Mr John Major, prime minister, said the poll showed the social chapter was "a licence to mess up the British recovery, a chapter of accidents waiting to happen". He said Labour and the Liberal Democrats, which support the social chapter, were "stuck in the groove of the old corporate, centralised, over-regulated Europe".

However, Labour said the economy was being severely damaged by the government's lack of concern for public health and social welfare.

Double blow to ethnic women

Women from ethnic minorities, regardless of the status of their jobs, face discrimination because of their gender and their race. Consequently, they are more likely to work longer hours than white women and work in lower paid and lower status jobs, a report by the Equal Opportunities Commission has found.

While six per cent of white women were jobless, as many as 16 per cent of ethnic minority women faced unemployment. The commission said one of the most startling findings was that this higher rate of unemployment existed despite the fact that ethnic minority women were more likely to continue in higher education than their white counterparts. When it came to unemployment levels of highly qualified women, ethnic minority women were twice as likely to be unemployed as white women.

Phone bills cut

British Telecommunications announced price cuts worth £46m in a full year, mainly benefiting heavy residential phone users and businesses making international calls.

BT is cutting the cost of calls to Japan, the Republic of Ireland, Israel, Hong Kong, Bahrain, and some European countries outside the EU and cutting bills for residential customers paying more than £100 a quarter, a large proportion of whom have moved their long-distance calls to Mercury, BT's main competitor. Mercury responded by pledging to maintain its guaranteed savings on long-distance and international calls.

Oil database

Oil companies active in the UK are to set up a common database of geotechnical data in a move towards greater co-operation where there is no competitive advantage at stake. Such schemes exist in Norway and Canada.

Fewer failures

Business failures last month fell to the lowest level since December 1989, according to information collected by Touche Ross, the accountancy firm. Corporate collapses in May were 157, down from 171 in April and 229 in May last year. The report predicted that total failures for the year would be as low as 2,000, compared with 3,226 last year.

QE2 refit plan

The QE2 luxury liner, which has just celebrated its 25th year in service, is to undergo a £30m refurbishment. The work will involve redecoration of every cabin on the 69,000-ton Cunard ship.

A decision on where the work, to take place in November and December, will be done is expected by the end of this month. Seven years ago Cunard chose a yard in Bremerhaven, Germany, for a £110m refit.

Locked in a poisonous embrace

We should never have expected enlightenment. British election campaigns have long since lost the central democratic purpose of illuminating the choices before the electorate. That sort of politics is too complex for a generation weaned on the tabloid press and the 15-second television sound-bite.

But even by the standards of the recent past, the European election campaign has been an unedifying spectacle.

Around the country, candidates for the Strasbourg assembly have dutifully knocked on doors, climbed on to platforms in village halls and picked up babies in market squares.

But at a national level the campaign has produced an entirely predictable game of charge and counter-charge in which important issues have been trivialised and trivial issues elevated.

So far the voters have been offered a synthetic dispute about the national veto, a protracted row over begging and a fruitless argument about the definition of federalism.

Other, real European issues have occasionally intruded - the social chapter, the path towards a single currency, the shape of Europe's future defence among them. But the tactics adopted by all three parties have ensured that rational debate is minimised in favour of cheap sloganising.

So nobody one should be surprised if, once again, the great mass of the electorate decides on June 9 that there is nothing, or nobody, worth taking the trouble to vote for.

The Labour campaign understandably has lacked focus. The death of John Smith left the party's leading figures preoccupied with his succession.

In any event Labour has yet to work out the difference between a strategy of attacking the Conservatives for leaving Britain in Europe's slow lane and a discriminating approach to the policies of other European Union governments.

After some initial slip-ups, Mr Paddy Ashdown's Liberal Democrats have looked effective in promoting themselves as the party to beat the Conservatives in the south-west. But like Labour, the party has been wary of sounding too positive about Europe. It has looked more comfortable attacking Mr John Major on domestic policy.

On a technical rather than intellectual level the Conservative campaign cannot be faulted. The strategy has been to prevent a bad result from turning into a catastrophe. The judgment from the outset was that the party needed to counter the disgruntled apathy of its hard-core supporters.

The instincts of these voters are those of the Tory Euro-sceptics. They are reflex chauvinists, suspicious of most things foreign and of all things emanating from Brussels. They believed Baroness Thatcher when she told them that a Britain free of the shackles of Europe could rediscover its past greatness. Coincidentally they also favour a hard line against beggars.

To win them back, the Conservatives concluded their best role in this campaign was not that of a government but of an opposition party. The central message has been constant: Mr Major would persuade the Europeans from doing that, would veto this, and would opt out of whatever else proved unpalatable.

If Conservative Central Office is to be believed, the strategy is working. Even those Tory MEPs who find the focus of the campaign distasteful are acknowledging that many of the punters like what they are hearing.

It is against this backdrop that Mr Major sketched out the possibility of a multi-speed, multi-track Europe. This so-called variable geometry - a ghastly phrase first uttered in public by Mr Douglas Hurd, the foreign secretary - would allow a wider, more flexible union to operate with the grain of public opinion.

All would participate in core activities such as the single market. In other areas - defence, monetary union, social policy - individual nations would choose whether or not to enhance co-operation.

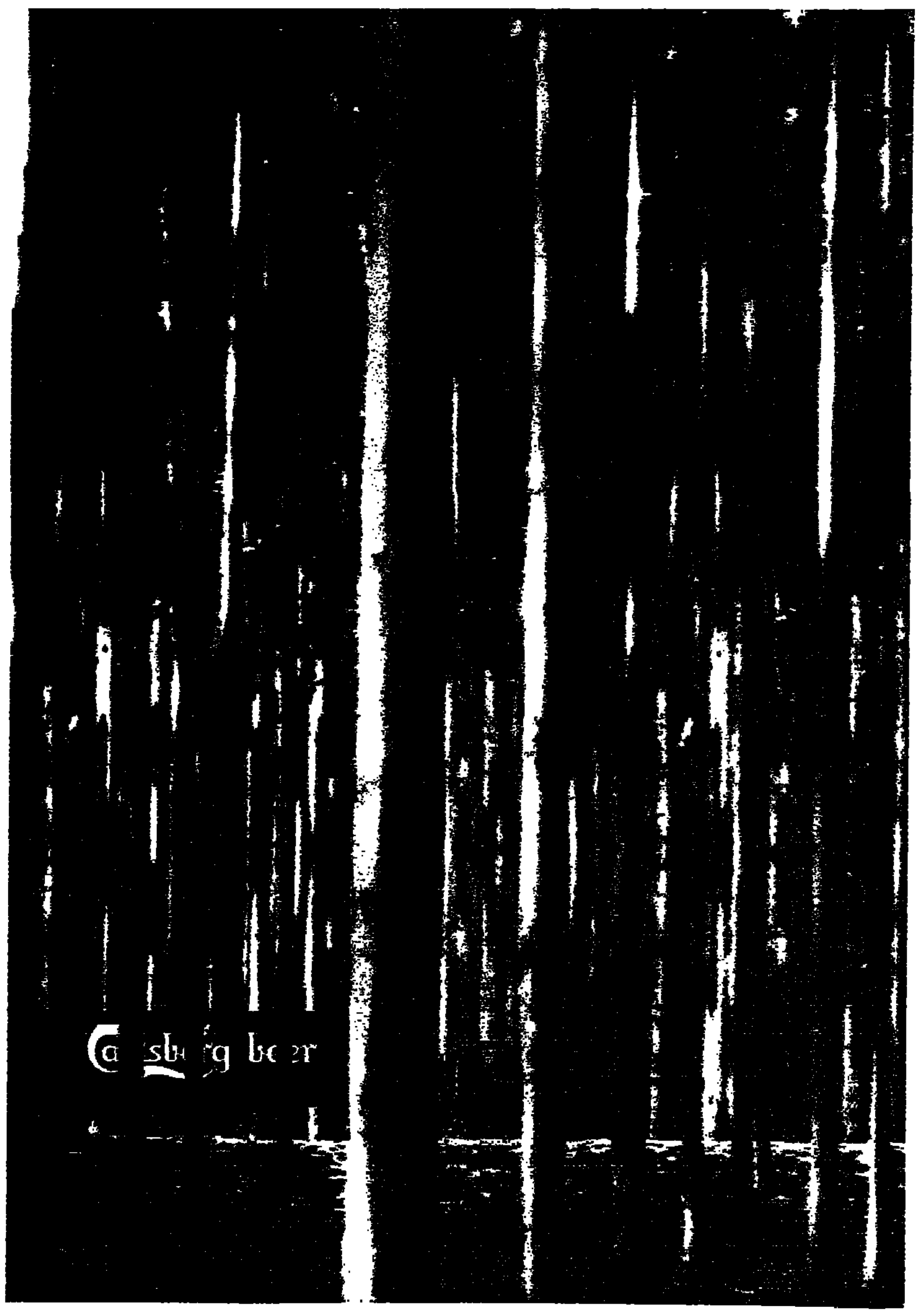
It is an idea with merit. In some respects it is a reflection of the status quo. In any event the cohesion possible among 12 states will not be so once it becomes a union of 20.

But the context and tone in which such arguments are framed are as important as the actual words. In Mr Hurd's multi-speed Europe, Britain would play a positive part, setting the pace of co-operation in defence and foreign policy.

Mr Major, locked in the poisonous embrace of his party's Euro-sceptics, appears more interested in opting out than opting in when the union reshapes its future in 1996. The national veto - threatened by nobody in Europe - has become a virility symbol.

The prime minister is right to argue that Europe has changed during the past few years. But scoring easy points with Essex man sits uneasily alongside a pledge to keep Britain at the heart of Europe.

Philip Stephens



Freebies through the door can exert a powerful influence on consumers. **Diane Summers** reports

Sample the soap, buy the brand

Selling soap does have its glamorous side – at least that is what the advertising agencies claim. The current television campaign which heralds the UK launch of the soap powder Persil Power "captures all the drama, suspense and intrigue of a big epic movie", enthuses agency J Walter Thompson.

Radio-controlled puppets, specially-composed music and a 60ft-by-100ft model village, have all gone into the advertisement for the product which recently found itself at the centre of a row between its creator, Unilever, and soap war rivals Procter & Gamble. Procter suggested that Persil Power's patented "Accelerator" action would rot fabrics – a charge responded to with outrage by Unilever.

But while the Titans clashed, and the TV "epic" was completed and then beamed to a waiting nation, a far more prosaic marketing exercise was also beginning. Thousands of men and women were being recruited to deliver free samples of Persil Power door-to-door so that consumers could actually try the stuff.

In one of the largest sampling programmes ever attempted, it is estimated that more than two-thirds of all UK households will receive trial packs of the soap powder over the coming weeks. Sampling, says Ed Lyons, the marketing manager in charge of the project, is central to the soap powder's £25m launch campaign.

The challenge is "to ensure that the highest levels of awareness and interest are created and then converted into brand trial", he says. Sampling gives consumers "the all-important opportunity to experience the brand and judge for themselves that the promise is delivered".

There is evidence that, for consumers, sampling is rated above all other forms of marketing communication, according to the Human Factor, a consultancy which has conducted market research for the two leading sample distribution companies, Circular Distributors and MRM Distributions.

Elaine Hunt, research director, says: "Sampling is the only form of unsolicited communication which is received without suspicion or annoyance. Psychologically, sampling creates an unusual climate in these days of the cynical consumer, who prides herself on seeing through all the wiles of the advertiser.

"The sample appears more in the nature of a gift – something for nothing – and the recipient seems to feel a more personal gratitude and pleasure than is inspired by most other forms of media activity."

'Sampling is the only form of unsolicited communication which is received without suspicion or annoyance'

Consumer enthusiasm is markedly stronger for genuinely "free" samples, rather than those which require the consumer to expend effort or cash.

The acceptability of a freebie is hardly surprising, but does sampling actually work? Hunt says that both for new products and those that have been around for some time, consumers cite sampling as the most powerful influence on whether they purchase, "easily outweighing advertising, money-off offers, or couponing".

Nick Wells, sales and marketing director of Circular Distributors, the company which is carrying out the Persil Power door-to-door deliveries, estimates that sampling has grown five-fold in the UK over the past decade, with a total of about 250m samples delivered through the door last year. While volumes have increased, the sophistication of sampling techniques has also developed since the 1950s, when the first exercise, for Omo soap powder, was carried out.

There are two basic methods of sampling: letterbox and personal call. The first is suitable for items, which fit through the door and are non-toxic (there are Advertising Standard Authority rules to protect against, for example, children picking up and eating samples of household cleaning products). The samples may go out on their own or be delivered with other items, which makes the exercise cheaper. CD says it would charge about £17 per 1,000 for the delivery of 30g samples if they were delivered with other items, while "solus" distribution would cost about £35.

Personal call sampling costs about 10 times more, says Wells. Delivery staff ring at the door and ask the householder questions to establish whether they have a use for the sample before handing it over. This helps cut down waste by ensuring, for example, that dog food only goes to dog owners. But the personal call also provides an opportunity for market research data to be collected, coupons to be handed out or a database of customers interested in future promotions to be assembled. MRM Distributions is even experimenting with the direct input of data on the doorstep, using laptop computers.

Wells's tips for sampling success include: make sure, if it is a letterbox delivery, that the sample is strong enough to withstand the family dog; make the packaging look as much like the real thing as possible; and avoid looking mean with samples which are too small to allow a proper trial.

Sampling would rarely be used in isolation, says Phil Annett, new products marketing manager for Cereal Partners UK, the joint venture between Nestlé and General Mills. He is particularly interested in targeting children for many of the company's new product launches, which have included the cereals Golden Grahams and Lucky Charms. As well as door-to-door sampling, Cereal Partners looks for distribution at toy shop checkouts and with doorstep milk deliveries. "If you can do it through a third party it adds endorsement," says Annett.

Sampling is unlikely to be effective on its own, says Annett. "We believe it should be used as part of a programme which includes advertising and promotion. But it is the ultimate form of product communication – actually to receive and taste the product. You can only do so much on television," he concludes.

What influences the buyer?

% Claiming to have bought a new product because of:

Free sample to try	85
Recommendation by friends or relatives	83
Money-off offer	75
Television advertisement	67
Saw in a shop	67
Money-off coupon or voucher	62
Advertising leaflet through the door	55

Source: MRM, The Human Factor 1993

Number fever leaves Pepsi drinkers cold

Victor Mallett on why 349 was so unlucky for the drinks company in the Philippines

Albert Yeban lives in hope. Yeban, who works in the canteen at a Manila golf club, has nine Pepsi-Cola bottle tops with "349" printed on the underside.

That number was announced as a winner in a Pepsi promotion in the Philippines two years ago, and Yeban reckons his bottles tops are worth a total of 4.4m pesos (£108,000) in cash prizes. He has joined a group of thousands of other 349-claimants and is hoping that an American lawyer will be found to win the money for him in a court case against PepsiCo in the US.

PepsiCo wishes it had never heard of 349. In one of the more ill-fated announcements in marketing history, the number was declared a winner on May 25 1992, at the height of a highly successful "under the crown" promotion called Number Fever.

Printed on each bottle top was a three-digit number, a sum of prize money to be won if the number turned out to be a winner, and a security code.

Such was the campaign's success in its first three months that it had been extended for a further five weeks. Unfortunately for Pepsi, and for thousands of Filipinos who thought they had become peso millionaires overnight, the number 349, chosen by a computer as a winner in the second stage, turned out to be a common non-winning number from the first stage.

There were no fewer than 800,000 bottle tops imprinted with 349, of which half carried 1m peso prizes. Pepsi-Cola Products Philippines Inc (PCPPI), 19 per cent owned by PepsiCo, could not possibly pay; the sum would amount to more than $15bn, dwarfing the £48m lost by Maytag, parent of Hoover of the UK, in its disastrous "free flights" offer to boost sales of vacuum cleaners.

Amid angry demonstrations in which several people were injured and Pepsi trucks were vandalised, Pepsi officials explained that there had been a "computer glitch" and insisted that only 349 numbers with the correct security codes (in other words those from the new series) would be honoured as winners.

PCPPI decided to pay each "old" 349 crown holder 500 pesos as a goodwill gesture, an offer which cost the company $10m, in addition to the $4m of prize money and advertising spent on the whole campaign.

But many Filipinos, including Yeban, refused to accept the offer, joining pressure groups such as "United 349" and "349 Consumers Organisation" that have sought payment in full and tried to keep the issue alive in the Philippine courts and in the media.

Claimants also believe that wealthy PepsiCo in the US is a better target than its relatively insignificant affiliate PCPPI. One group has sought help from Robert Swift, a US lawyer who helped to win a class suit (a case brought by a class of people who share a grievance) in Honolulu on behalf of 10,000 victims of the regime of the late dictator Ferdinand Marcos; the jury awarded $1.2bn from the Marcos estate to the victims, although the money has yet to be paid.

Vicente del Fierro, a former advertising executive who heads another group called "Coalition 349" from a house in the Manila suburbs, says he represents 3,000 of the 349ers. "It's about third world countries being exploited by multinationals," he declares, saying he is on a "crusade for justice" over the company's "deception" and "malice".

Del Fierro charges the 349ers an annual fee and says he plans to file a class suit in the US against PepsiCo, although Jeffrey Glen, the New York lawyer with whom he is in contact, says that his company Berwin Leighton has done only "a little preliminary work" and that no decision has been taken on whether to pursue the matter in the US.

In the Philippines, which inherited a habit of litigiousness from the US, its former colonial power, more than 15,000 cases have been filed against PCPPI, but almost all have been dismissed. In one case earlier this year, a provincial court ordered the company to pay 1.1m pesos to a 21-year-old claimant, but the judgment is being appealed.

PepsiCo – as keen to distance itself from the 349 affair as claimants are to implicate it – says Number Fever was "a local promotion". There haven't been any suits filed in the US, according to Ken Ross, PepsiCo's vice-president for public relations. "It's not the proper venue."

During Number Fever, Pepsi increased its share of the soft drinks market in the Philippines from 19 per cent to 25 per cent, luring customers from the dominant Coca-Cola brands and smaller local manufacturers. After the 349 fiasco, however, Pepsi's share plunged to 16 per cent.

Now the company's market share is recovering, although Pepsi-Cola itself, perhaps because it is identified by name with the 349 affair, has not done as well as non-cola drinks such as 7-Up or Mirinda. Pepsi says sales in the Philippines rose 40 per cent in the year to April, and market share is back to about 20 per cent.

Filipinos say they are great ones for forgiving, whether it involves political enemies or companies such as Pepsi. Asked about Pepsi, one Manila stockbroker said: "We even forgave Imelda [Marcos's notoriously extravagant wife] and let her stand in the presidential election."

PepsiCo, locked in combat with Coca-Cola for dominance in Asia's fast-growing markets, is keen to lay the 349 controversy to rest. "The vast majority of consumers in the Philippines understand that this was an honest mistake," says Ross. "A small but vocal minority of people have chosen to pursue the matter. That's their right and the matter is in the courts."

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Pool purchase price £/MWh (trading on 02.06.94)	Final Pool purchase price £/MWh (trading on 03.05.94)	Final Pool selling price £/MWh (trading on 03.05.94)
0030	10.75	10.90	10.90
0100	10.39	10.87	10.87
0130	10.39	10.90	10.90
0200	10.39	10.95	10.95
0230	10.39	10.95	10.95
0300	10.39	10.95	10.95
0330	10.39	10.95	10.95
0400	10.39	10.95	10.95
0430	10.39	10.90	10.90
0500	10.21	10.90	10.90
0530	10.90	10.87	10.87
0600	13.23	10.85	10.85
0630	13.23	10.90	10.90
0700	13.56	12.70	12.70
0730	22.30	21.09	22.83
0800	23.33	22.09	23.83
0830	24.21	24.67	26.41
0900	24.57	24.67	26.41
0930	24.57	24.68	26.42
1000	33.08	24.68	26.42
1030	33.08	24.68	26.42
1100	25.46	24.68	26.42
1130	25.46	24.68	26.43
1200	33.08	29.53	31.27
1230	33.08	29.52	31.27
1300	25.46	24.68	26.42
1330	24.21	24.67	26.41
1400	24.57	22.09	23.83
1430	23.80	21.41	23.15
1500	23.80	21.41	23.15
1530	23.80	21.41	23.15
1600	23.66	21.41	23.15
1630	25.93	30.34	32.08
1700	26.93	30.34	32.08
1730	33.08	30.34	32.08
1800	33.08	23.50	25.24
1830	27.52	21.41	23.15
1900	25.93	21.41	23.15
1930	23.33	21.09	22.83
2000	23.18	20.03	21.77
2030	22.30	21.09	22.83
2100	21.14	30.65	32.39
2130	27.47	30.65	32.39
2200	37.91	30.65	32.39
2230	37.91	30.65	32.39
2300	30.41	21.09	22.83
2330	30.41	11.20	11.20
2400	21.14	11.05	11.05

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £10.68/MWh becomes 1.068p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0602-456789 between 8:30am and 5:15pm Monday to Friday.
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TECHNOLOGY

Christopher Brown-Humes concludes a series on research by looking at the links between industry and academia in Sweden

An adjunct to success

Hakan Mogren, president of Sweden's high-flying pharmaceuticals group Astra, last week launched a wide-ranging assault on the state of the country's research industry. There were too few qualified researchers in Sweden, he said. The education system was insufficiently geared to industry. Astra was increasingly having to locate research capability abroad.

Mogren, one of the country's most respected business leaders, should know what he is talking about. Not only is Astra the country's biggest company judged by market capitalisation, but it has done as much as any Swedish company to foster links between industry and academia.

Is the picture fair? Sweden spends 2.9 per cent of its annual GDP on R&D, a level which puts it towards the top of the world league. It also has a well-developed framework for contacts between industry and universities. Is it simply that the country is not getting value for money?

One must first consider the distorted structure of Swedish industry. The big multinationals, where the country's industrial strength is concentrated, have built up good contacts with universities. They are led by Astra and Pharmacia in pharmaceuticals, Ericsson in telecommunications, ABB in engineering and the vehicle groups Volvo and Saab. But Sweden does not have enough medium-sized companies and it is at this level (and the small company level) that contacts are much less well developed.

Camille Modeer, a director of the Federation of Swedish Industries, says: "The problem in Sweden is not lack of ideas. The problem is lack of possibilities to develop them." She attributes the lack of entrepreneurial activity to a cultural and political environment which has favoured development of the welfare state and eschewed risk-taking for the last half century.

Turning the situation round will not be easy. For Modeer, a key priority is getting more people with PhDs into industry and particularly into small and medium-sized companies. Modeer also says Sweden must make more use of its research. Academics have not always been commercial enough in their approach, stopping "when they have had an article printed in some distinguished scientific journal".

It is not that Sweden is short of mechanisms for promoting collaborative research, nor does it lack private-sector funding. More than 60 per cent of R&D expenditure is financed privately, with the government accounting for 35 per cent. It also has the advantage of being a small country where people tend to know everyone else in their field.

A system of "adjunct professorships" is one way the cross-fertilisation works. An adjunct professor will typically spend 80 per cent of their time with a company and 20 per cent at a university.

But adjunct professors are just one strand in a web of industry and academic ties embracing science parks, industrial research institutes, industrial liaison offices and strategic research foundations. The research foundations are relative newcomers: endowed with SKr10bn (£850m) after the break-up of the old wage earner funds, their task is to create centres and fields of research excellence over the next 15 years.

Astra is particularly sensitive to the Swedish research climate because it has placed strong emphasis on contacts with universities and medical schools. The basis for the company's rapid development was its acquisition of the rights to the compound Xylocaine, a painkiller developed by two researchers at Stockholm University.

Claes Wilhelmsson, Astra's head of R&D, says a free flow of ideas is vital for keeping the company in the front line of medical knowledge. The group has 30 adjunct professorships and stresses physical proximity to academic centres not just in Sweden but abroad. It already has four overseas centres – in Montreal, London, Bangalore and Brisbane – and plans to expand to six. At the University of Montreal, Astra is looking to tap the institution's specific expertise in the field of pain research and it talks of having a unit of up to 100 researchers there eventually.

Wilhelmsson says that only by having a large number of small units working in different areas will Astra get access to the broadest possible range of new ideas for treatments. Besides, he argues, small decentralised units are more innovative and creative than big ones encumbered by bureaucracy.

But he accepts there are drawbacks to the approach. One is duplication of cost. The other is the risk of commercial secrets leaking out.

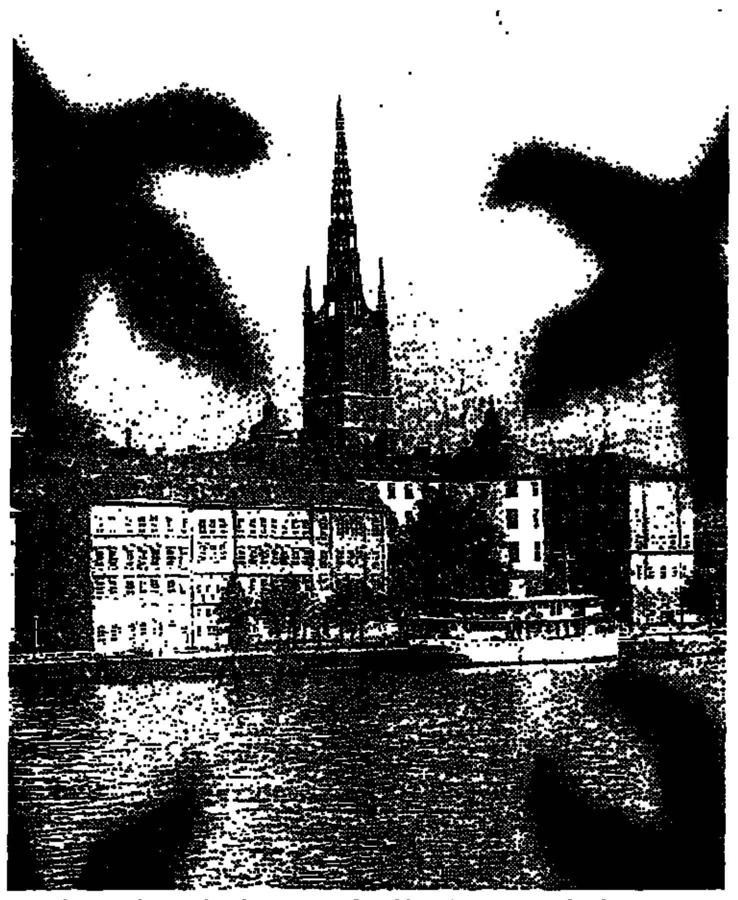
Ericsson also stresses academic contacts, although Bengt Gällmo at the group's university liaison office cannot link one specific product directly to the collaboration. "We wouldn't get a complete product from a university system. What we would get is a solution to a particular problem," he says.

In Sweden, Ericsson has developed close ties with the Chalmers University of Technology in Gothenburg and Lund University. Abroad, it has set up laboratories near universities in Germany, the Netherlands, and North Carolina.

The contacts with Lund are a good example of the way collaboration has worked to the advantage of both parties. A few years ago, Ericsson decided analogue electronics were being neglected and established an adjunct professorship in the field at Lund. The move helped attract PhD students to the university. The professor took on a full-time role at Lund and was hired back by Ericsson as a consultant. The relationship continues today.

Gällmo says Ericsson is big enough to build up its own relations with universities. But he thinks links between Swedish industry and research centres are "generally rather weak", particularly at the level of small and medium-sized companies.

Other articles in this series appeared on: April 14, 21 and 28th and May 5, 12, 19 and 26.



Changing the climate: Sweden does not lack ideas, just ways to develop them

Good ideas stay out of the drain

Andrew Fisher reports on a programme which aims to close the gap between inspiration and profit

In the endless debate about British industrial performance and its gradual decline relative to other countries, there is rarely any complaint about a shortage of ideas. The problem lies not so much in inventiveness as in the ability to make money out of new products and technologies.

"We're actually a small and very inventive country," says Sir Ronald Oxburgh, rector of Imperial College of Science, Technology and Medicine, part of London University. "It could be argued that we're almost too inventive for our own good."

Whether the fault lies in lack of money, a cultural and educational bias against industry or an unwillingness by enough companies to take risks, there are numerous examples of UK ideas that have been successfully exploited abroad.

To help close the gap between inspiration and eventual profits, Imperial College has embarked on a venture which it believes is unique among British universities.

Called IC Parc, it is a partnership between Imperial's own research staff and resources and companies such as British Airways, British Telecommunications and ICL (the UK-based computer subsidiary of Japan's Fujitsu). Its purpose is to find solutions for the complex computer needs of its clients stretching into the next century. Barry Richards, director of IC Parc and professor of computing science at the college, says it was set up "to remove the problem of a good idea which doesn't go forward".

IC Parc works on medium-term problems – such as complex aircraft scheduling for BA, data delivery for the videoconferencing and other visual broadcast services planned by BT, and telepublishing (with text stored digitally) – which companies understand but need extra help to solve. "IC Parc is seen as addressing the task of ensuring that ideas don't go down the drain or across the Atlantic," he adds.

It focuses on the development of advanced software in areas of vital importance for future applications of information technology: planning, scheduling and decision support.

Launched last month and arising out of Imperial's computer forum linking academia and industry, it stresses the establishment of strong relationships with the partner companies, which it calls technology clients.

Catherine Griffiths, a research fellow at IC Parc, says the forum showed "companies had special needs that were not being addressed". Their problems were of a complexity that could not be simply solved by consultants. Solutions have to be developed in such a way that they can be integrated easily into companies' differing organisations.

It's one thing to conceive what technology might be useful and another to work out how to apply it

"Some companies are very clear about their problems," says Richards. "In other cases, they say 'we know broadly what we want to achieve in the medium term but we're not clear how to do that'. It's one thing to conceive what technology might be useful and another to make something out of that technology and work out how to apply it. You have to know the company very well and assess the likely impact."

BA, for example, knows it will be scheduling aircraft in the future, says Griffiths. "They want to know how to do it better; they want to build on the need that they have." Bill Teather, BA's head of information management, is enthusiastic about IC Parc's potential benefit for the airline and other companies.

"For a university to organise itself so it can present a business-oriented front to business – as a planning rather than a computer department – makes a tremendous difference for the senior managers in the airline by helping them understand what is on offer."

For BA, IC Parc offers the opportunity to schedule aircraft in an even more complex way than at present. "We have enormous assets in our aircraft," says Teather. "A small percentage rise in aircraft utilisation can save money and help us deliver customer service better."

If aircraft have to be rescheduled because of bad weather, for example, the new software systems being developed at IC Parc could enable BA to do this more efficiently by taking into account a greater range of factors (including other flight schedules and passenger connections) than at present.

"This offers potentially the next step change in how to tackle planning problems," he says. "It should allow us to do what we do now more generally – to do it on a bigger scale." Teather hopes such software solutions can also be applied to other scheduling tasks such as the deployment of maintenance staff in airports.

"There are complicated scheduling problems for which IC Parc is in a position to provide general solutions as opposed to specific home-grown ones which can be expensive and need lots of changes to meet different situations," explains Teather.

The question of scalability is a big problem in innovation, not just in the IT field. What works in a limited environment may not translate easily to the wider practical world.

Sir Ronald recalls from his days as chief scientific adviser with the Ministry of Defence that some of the biggest problems arose with software. Systems which worked beautifully in small-scale demonstrations could throw up new problems when developed on a much bigger scale. "You're building systems that are too big for individuals to get their minds round," he says.

PEOPLE

James Dawnay (above), a former head of Mercury Asset Management's unit trust operations, is starting to put his stamp on the unit trust operations of Martin Currie, the Scottish fund manager that he joined a couple of years ago.

Dawnay, 47, has taken over as chairman of Martin Currie Unit Trusts, replacing Michael Kennedy, 58, the chairman and chief executive of the privately-owned Martin Currie group. Kennedy remains on the unit trust company board but is starting to hand over some of his responsibilities as he approaches retirement.

Sandy Dudgeon, 37, amateur jockey and former deputy managing director of Adam & Co, the Edinburgh private bank, has been brought in to replace Alan Maidment, 58, who retires as managing director of Martin Currie's unit trust business in September. George Tsergas, 48, who joined Martin Currie last year after nine years with the Fidelity fund management group, has been appointed sales director.

Since Dawnay arrived at Martin Currie, which has £4bn under management, he has been involved in building up the group's overseas institutional business. He now intends to devote more time to its unit trust business which has doubled in size over the past couple of years, to £430m. Dawnay says it is still too small and hopes to double its size again in three years.

■ Martin Greig and Yvonne Savage have been appointed to the board of HODGSON MARTIN.

■ John Rae has been appointed vice-president in BANK OF AMERICA's export finance group; he moves from Samuel Montagu.

■ Brian Primrose, formerly operations director of Schroder Unit Trusts, has been appointed a divisional director of MARLBOROUGH MANAGEMENT GROUP.

Holder moves up at General Accident

Barrie Holder, 48, General Accident's finance director, has been appointed a deputy chief executive. This increases speculation that he might take over as chief executive of Scotland's largest insurer when Nelson Robertson, 60, retires.

Holder, a Yorkshire-born accountant, joined GA in 1967. He spent a year in New Zealand in 1989 sorting out GA's expensive acquisition of New Zealand Insurance. He is the group's finance director and has now added responsibility for the group's fast-growing life operations to his portfolio.

Australian Bob Scott, 52, who has been responsible for reorganising the group's sluggish UK business, has also been appointed a deputy chief executive. His responsibilities have been extended to include the international division. Although Scott only joined GA following its 1987 takeover of NZI, his rapid promotion suggests that he has impressed the group's traditionally conservative directors.

Meanwhile, New Zealander Russell Evans, 55, another NZI veteran who is now in charge of GA's corporate planning, has been appointed a general manager. GA Life's general manager, Bill Jack, a 49-year-old Glaswegian, has been appointed general manager (life) of the parent company.

Baird returns to Edinburgh

Grant Baird, the former chief economist of the Royal Bank of Scotland who for the past three years has run Scotland Europa, which represents Scottish organisations and businesses in Brussels, is returning to Edinburgh.

He is to become executive director of Scottish Financial Enterprise, the private sector body which promotes the financial community.

Baird takes up his post in September, when James Scott, a former senior Scottish Office official who has directed SFE since 1991, steps down. SFE was founded in 1986 to bolster the Scottish financial community when London was blowing its trumpet in the run-up to Big Bang. Its 220 members include all the major banks, life assurance companies and fund managers north of the border, as well as providers of professional services.

■ John Strudwick has been appointed client services director of Club 24, part of NEXT.

■ John Patterson has been appointed to the new position of director of operational performance fro BRITISH AIRWAYS.

■ Michael Averill, group chief operating officer, has been appointed to the board of SHANKS & McEWAN.

■ Ian Burton has been promoted to md of NATIONAL TRUST Enterprises.

Non-executive directors

■ John Kemp-Welch (above), chairman-elect of the Stock Exchange and former senior partner of Cazenove, at SUN ALLIANCE GROUP and Sun Alliance and London Insurance.

■ Richard Giordano, chairman of BOC and British Gas, has resigned from LUCAS INDUSTRIES.

■ Sir Geoffrey Holland, former permanent secretary at the Department for Education, at SHELL UK.

■ Kathleen O'Donovan, finance director of BTR, at ARDAGH.

■ Sir James Ball and Lord Peter Rees have resigned from LASMO.

■ David Wathen, former chief executive of Haemocell, at OPTOMETRICS CORPORATION.

■ George Hayter, deputy chairman of Unipalm, at PEGASUS GROUP.

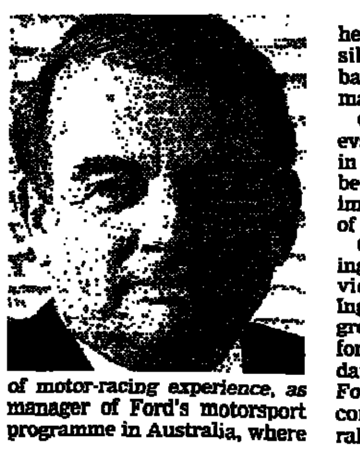
■ Sir Anthony Tuke and Sir Thomas Risk have retired from The MERCHANTS TRUST.

■ Peter Harrop as chairman at PLASMEC; he is therefore resigning from DENSITRON INTERNATIONAL.

Ford puts Gillitzer in the hot seat

Ford, basking in the success of Michael Schumacher and his Benetton Ford in grand prix, and enjoying something of a renaissance in European touring car racing and rallying, has created a new top motorsport post. It is aimed at giving long-term strategic direction to one of the car industry's most valuable marketing tools.

Perhaps surprisingly, the chosen candidate is not a dyed-in-the-wool career motorsport figure but a 56-year-old former product planner and design and development engineer, in the form of Australian Peter Gillitzer.



He has had just three years' of motor-racing experience, as manager of Ford's motorsport programme in Australia, where he had previously been responsible for bringing a Mazda-based two seater, the Capri, to market.

Gillitzer's task will be to evaluate and advise where and in what categories Ford should be competing in order to maximise the promotional benefits of competition.

Gillitzer, who will be reporting directly to Ford of Europe vice-president of marketing Ingvar Sviggum, did not have a great deal to celebrate when he formally started the job yesterday – less than 24 hours earlier Ford had only managed to come fifth in the Acropolis rally.

Cinema/Nigel Andrews

Turkey feathers to tickle our fantasies

There is a funny joke in *The Secret Rapture* about the difference between erotic and perverted sex. In the first, gurgles raconteur Joanne Whalley-Kilmer to a trio of tired business colleagues in a bar, you use a feather. In the second you use the whole chicken. Hilarity all around. Then seconds later Miss W-K is lunging across the table with a steak knife, trying to stab First Businessman.

It is that kind of film. Gestures and apocalypses come from nowhere. David Hare's stage play was an odd, feathery thing. Addressing matters such as grace, faith and the quality of life, it made attractive tickling motions in the direction of our consciences. The film, by contrast, is a turkey, a whole turkey and a plucked turkey. And since this turkeyisation process has happened to Hare before – when *Plenty* moved from play to film, and when *Paris By Night* and *Strapless* trailed clouds of staginess on to the screen – we should ask: What is going wrong?

The Secret Rapture has one of those plots, full of designer metaphor, that one accepts while sitting in the hothouse of a theatre. An old bookseller has died, leaving his two daughters to cope with the dear old farmhouse and the deadly young widow: Catherine (Miss W-K), a sort of Hell's Angel on heels; younger daughter Isobel (Juliet Stevenson), good and kind, runs a small graphic design shop; older daughter Marion (Penelope Wilton), more venal, is first caught trying to reclaim a ring from dead Dad's bedside.

But there is one thing that plays can get away with and films cannot. Circumstantial vagueness. We do not expect the stage to rotate 45 degrees towards us, exposing the designs on top of Isobel's worktables. But in a movie we ask, "What *are* these people designing?", apart from the single lurid book-jacket being worked over by Isobel's partner-boyfriend (Neil Pearson).

So when well-heeled Marion buys into the firm and tries to expand it with harpy Catherine's help, we are meant to cry "Tsk! Tsk! Do not sell out, Isobel"; but instead we feel, "What a good idea." Perhaps the firm will now take on a graspable identity.

More vagueness: Penelope Wilton's Marion, who clarion-announced herself as a Tory minister in the play, here seems vocationally less specific. And her husband, a lay preacher on stage full of chortlesome pieties, is played by Alan Howard in the movie as an odd, mute bird with a crick in his neck and few lines of dialogue.

Director Howard Davies pushes bits of style at Hare's screenplay as if hoping that they will peck it into life. A moment of emotion produces a tilted angle. A love scene stripes two bodies with Venetian-blind shadows.

But when a bird is dead, as Monty Python proved, no amount of shock treatment can help. Plucked of its wit and thrust into the "real" world, the moral schematic of Hare's play seems trite and sanctimonious. Hold on to that cottage industry. Hug that parental farmhouse (shades, nay swathes, of *Howards End*). And cherish the mentally distressed, who might be well-intentioned (Catherine), while shunning the mercantile (Marion), who cannot ever be.

Nothing is more dopily conservative than some writers with left-wing sympathies. People often ask why British films cannot get their act together.

The reason is that modern British cinema, like so much modern British life, is one long apology *pro sua vita*. "We have never had it so bad." And (corollary) "we shall never have it so good again", unless, quoth Hare, we put a moratorium on all that might expand people's lives, ambitions and imaginations and thereby threaten tight little, green little England.

Strong on style but weak on content: Juliet Stevenson and Joanne Whalley-Kilmer fail to light any fires in 'The Secret Rapture'

THE SECRET RAPTURE (15)
Howard Davies

NO ESCAPE (15)
Martin Campbell

DANGEROUS GAME (18)
Abel Ferrara

INTERSECTION (15)
Mark Rydell

*

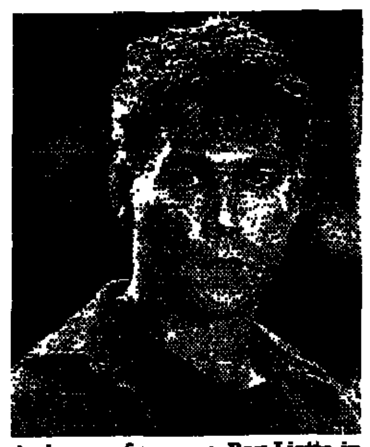
Now a much-needed change of scene. "The nearest aspirin is 2,000 miles away," says the doctor (Ian McNiece) on the subtropical island in *No Escape*. We have all known holiday spots like this, but "Absolom" is an atoll of a different aspect. Even though the jokey convicts' leader (Stuart Wilson) says "Welcome to vacation paradise" to the newly arrived hero (Ray Liotta) – and Liotta, picking up the mood, replies "Hope you take plastic" – this is a futuristic penal colony (year 2022) where torture, riot and sudden death are rife.

Can Liotta, sent here after threatening a previous warden with an electric cattle-prod, escape – or at least find a more pleasant part of the island? He does the latter, falling down a mile-high cliff into a river from which the Good Convicts, led by white-haired father figure Lance Henriksen, rescue him. But will Wilson pursue and avenge?

The film is a re-tread of *Papillon* with camp dialogue, wild scenery and costumes that look as if they were designed by Mad Max's aunt. Present is a platoon of British actors, led by Wilson and McNiece, playing the nasties and causing us to ask: What *is* it with Hollywood and the British? Can America not get one of its own kind to curl a lip, quiver a nostril and deliver a well-egged epigram? Perhaps not. Wilson's jokes steal the movie.

*

Abel Ferrara's *Dangerous Game* used to be called *Snake Eyes*. But like last week's *Hostile Hostages* (US title *The Ref*) it has been re-baptised for Britain by the banal minds who do these things. No title, though, could do justice to this transportingly batty film about film-making from the writer-director of *Driller Killer* and *Bad Lieutenant*. An earnest Madonna and a more earnest James Russo act out a tale of marital hell before the cameras of fictive filmer Harvey Keitel.



A change of scenery: Ray Liotta in the futuristic No Escape

Whose are the snake eyes? Perhaps Madonna's; but it is mostly too dark to tell on this soundstage within a soundstage. Or maybe they are Keitel's, who has long, writhing Medusa locks to match. The film replays the contest between vice and virtue that we saw in *Lieutenant*: only with Madonna as the wife who is getting religion and Russo as the man burning out on sex and drugs.

No one seems more obsessional, though, than the man behind the camera, O.D.-ing on celluloid and Stanislavski-babble. Like any genius director Keitel wants more. "Smell her, Frank, smell her"; "Dig down into hell, Frank"; "Piss on the floor". The audience, on the other hand, wants less. But it has an eerie feeling that this is what life is like on a Ferrara set, and we might as well have the ugly truth while it is offered.

*

Intersection also comes from the world's psychodrama storage-room. Richard Gere takes the Michel Piccoli role in this Hollywood defrosting of the 1970 French film *Les Choses De La Vie*. Mark Rydell (*The Rose*) replaces Claude Sautet in the director's chair, blowing warm air all over the tale of a man whose life is torn between two women and whose mind replays that life, in flashbacks, just as his car is about to be torn between two trucks.

Gere's past career as a Vancouver-based architect flashes before him. His affair with redheaded Lolita Davidovich flashes before him. And the blonde, curvaceous Sharon Stone flashes before him – but this is not *Basic Instinct*. Stone, playing Mrs Gere, gets to expose nothing lower than a quivering chin and a pair of Joan Crawford cheekbones. The film is minor but enjoyable.

Theatre

Acclaimed King Lear cuts the deepest

Trailing a wake of acclaim from last year at Stratford-upon-Avon, Adrian Noble's Royal Shakespeare Company production has reached London, still with Robert Stephens as the King.

The acclaim was deserved. If a "complete" representation of *King Lear* is a will-o'-the-wisp ideal, this one cuts deeper than most, and more consistently. No other that I have seen has laid the chill metaphysical bleakness of the play so bare, nor made so strong a case for recognising that as its central theme.

What do you want from a *King Lear?* If it is tender, heart-rending moments, Noble is brusque with those. On his view of the play, they would be sentimental cheats. Instead, all the lusty intrigues are set in a coolly distant (but beady-eyed) focus. The human twitchings and cavortings serve only to confirm Lear's ultimate discovery: that scarcely anything in this indifferent world matters much, nor suggests anything else for our consolation.

As a mere poetical message, that might ring dully; but Noble sees to it that all the dramatic action is superbly clear and vivid Lear has a complicated story and leads inexorably towards the cruel final vision. Anthony Ward's designs reduce the earthy details to bare symbols, but his churning astronomical backdrops stress the inhuman grandeur of a "real", space-eye setting. The experience is worth it, despite some calculated losses along the way.

Nothing becomes Stephens' Lear like going mad. From there he expands into profound, shattered insights hugely indulged by the production, and quite rightly. Earlier he has to play his King to daughterly stereotypes: Abigail McKern's Cordelia (dressed as a goody-two-shoes with pigtail and chaste tunic), Jenny Quayle's Regan (a sexy, overly bright-eyed hostess) and Janet Dale's anxious little Goneril, who looks like something between Goldie Hawn and the ex-Islington leader Margaret Hodge.

At the start, their daughterly effusions pretty set-speeches, every one (even Cordelia's) are urged on by sympathetic chuckles from Lear's courtiers. It is shocking and irrational, then, that the King should reject Cordelia's plainer homage so violently, without warning; but such things do happen, and the play goes on to record much nastier twists among its personnel. Little by little the sharpest vicissitudes fade into temperate blurs, because the overwhelming pointlessness of life swallows them up without naming favourites.

Along the way the RSC players supply vital flashes: David Bradley's Douglas Hurd-like Gloucester (prissy, decent and politic), David Calder's staunch old Kent, Ian Hughes' archly androgynous Fool, Mark Lockyer's repellently oily Oswald. Simon Russell Beale's saintly Edgar is perhaps elevated a touch too far. John Normington keeps his Albany down to a level of intense decency, and Owen Teale plays the bastard brother Edmund with expansive relish, while Simon Dormandy taps an authentic, even psychopathic vein for his horrifying Cornwall. One way and another, the icy, colossal scale of the play makes itself felt as I have never met it before.

David Murray

Barbican Theatre, in repertory until August 30.

Opera/Martin Hoyle

Playing Away fails to score

Remember *Damn Yankees?* An American musical of the 1950s that enjoyed a Drury Lane run, it retold the Faust legend against the background of professional football.

Howard Brenton's libretto for Benedict Mason's opera *Playing Away* combines the Faust myth with football; not hard to do when most successful players look like mafiosi. The musical's most diverting character was a temptress called Lola. Consciously or not, Brenton echoes this with another sultry Lola, the footballer-hero's wife. Alas, she has nothing so entertaining to sing as *What Lola wants*, as immortalised by Gwen Verdon.

The direction by David Pountney, which won a prize for Opera North at the world premiere at the Munich Biennale a fortnight ago, can be seen at the Grand Theatre, Leeds, this week and then in Hull, Nottingham and Manchester.

As a production it has all the theatrical audacity and exuberance of Pountney at his best. He turns an opera chorus into a mob of soccer rowdies charging into Munich (very self-referential, this piece) with the topical cry of "My team is fed on British beef!" He can, with Quinny Sacks' choreography, depict the relationship between star player and anthropomorphic ball (soprano Nicola Sharkey in a piebald body-stocking) as a tenderly manipulative ballroom dance. A bierkeller scene evokes those Germanicisms so wickedly caricatured in ENO's *Königskinder*. Like Huntley Muir's award-winning sets and costumes, the production deserved its prize.

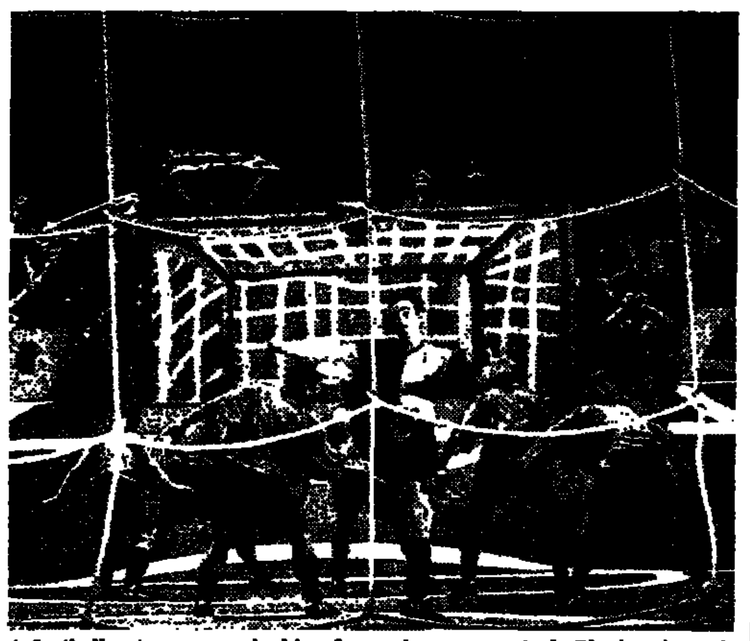
The work itself is more problematic. Brenton's libretto is too wordy for opera, especially with the company's less than perfect diction. After the acid test of seeing the piece without reference to cast or synopsis, I was startled to see I had missed a singing dachshund, not to mention the universal issues of morality, power-play and the unsuitability of women in the players' baths. The production's swish and style fails to disguise the episodic, undeveloping nature of the first half, or the delay in getting to grips with the Mephistophelean element until well into the second.

Mason's score is a cheerful kaleidoscope of allusions, quotations and parodies where the listener, however fleetingly, snatches fragments of everything from Humperdinck and Wagner to Bernstein and "The Stripper". Even Terry Bond, the golden-boy of the pitch, suggests vulnerability with a stammer that recalls Billy Budd. Philip Sheffield makes the most of the one adequately-characterised role, oddly resembling Tony Blair, who doubtless also has various diabolical pacts to consider.

As a spectacle the work is fun, with its vivid if obvious depiction of tabloid hacks (who end up briskly copulating) and its excitingly choreographed soccer match.

But for the most part the characters remain tokens, fleshed out neither with words nor music. Richard Suart as the manager could turn to juggling, soft-shoe shuffles or Gilbertian patter at the drop of a trilby; splendid stuff, but better than the work deserves.

Grand Theatre, Leeds.



A football extravaganza looking for goals: as a spectacle Playing Away is fun but as an opera it is far too wordy and episodic

INTERNATIONAL ARTS GUIDE

■ ATHENS

Megaron Tonight, tomorrow: Alexandros Myrat conducts La Camerata in orchestral works by Mozart and Tchaikovsky, with piano soloist Bruno Leonardo Gelber. Next Wed: first of four concerts by Orchestre National du Capitole de Toulouse conducted by Michel Plasson, including two performances of Berlioz's Les Troyens (01-728 2333/01-722 5511)

■ BERGAMO

The annual festival at Bergamo and Brescia runs till June 11 with an emphasis on the piano music of Bach, Mendelssohn, Schumann and Reger. Highlights of the final week include recitals by Alicia de Larrocha in Brescia on Mon and Bella Davidovich in Bergamo on Tues (Bergamo: 035-249631. Brescia: 030-375 7974)

■ BOLOGNA

Teatro Communale The season ends with concerts tomorrow and Sat conducted by Eliahu Inbal, with a programme consisting of Petrassi's Magnificat and Ravel's Daphnis et Chloe (051-529999)

■ FLORENCE

MAGGIO MUSICALE
Semyon Bychkov conducts the Maggio Orchestra tonight at the Teatro Communale in Beethoven's Fourth Piano Concerto (Maria Tipo) and Stravinsky's complete ballet music for Pulcinella. Roberto Cominati gives a piano recital on Tues. Later in June there will be a Japanese operatic double-bill devised by Bob Wilson, concert performances of Lady Macbeth of Mtsensk, a MaggioDanza triple bill and a concert by the Dresden Staatskapelle under Sinopoli. The festival runs till July 1 (055-277 9236)

■ GENOA

Teatro Carlo Felice There is a final performance tomorrow of Lucia di Lammermoor, with cast headed by Mariella Devia. The next production is Leoncavallo's three-act operetta La reginetta delle rose, opening June 14 (010-589329)

■ LONDON

THEATRE
● Rutherford & Son: the National revives Githa Sowerby's 1912 portrait of suffocating Victorian values. Bob Peck plays John Rutherford, a man obsessed with the running of his factory at the expense of all compassion. Katie Mitchell directs in the Cottesloe. Opens tonight (National 071-928 2252)
● Murder in the Cathedral: Stephen Pimlott directs this new RSC production of T.S. Eliot's greatest play, inspired by the story of Thomas Becket. Opened last night (The Pit 071-638 8891)
● King Lear: Robert Stephens plays Lear in Adrian Noble's RSC production, transferred from Stratford. Just opened (Barbican 071-638 8891)
● A Midsummer Night's Dream: the summer season in Regent's Park is now under way with Deborah Paige's new production of Shakespeare's supernatural tale (Open Air 071-486 2431)
● Pericles: the National's new production of Shakespeare's magic epic is directed by Phyllida Lloyd, with Douglas Hodge in the title role. In repertory at the Olivier with Alan Bennett's acclaimed stage adaptation of Kenneth Grahame's novel The Wind in the Willows (National 071-928 2252)
● A Month in the Country: Helen Mirren is in dazzling form as the bored Russian housewife of Turgenev's languid masterpiece. Ends June 11 (Albery 071-867 1115)
● Arcadia: West End transfer of Trevor Nunn's National Theatre production of Tom Stoppard's complex but often funny drama (Haymarket 071-930 8800)
● Dead Funny: Terry Johnson's new comedy of sexual impotence has nudity, swearing, tension and bite. With Zoe Wanamaker and David Haig (Vaudeville 071-928 2252)
OPERA/DANCE
Covent Garden The Royal Opera has Mosé in Egitto with Ruggero Raimondi (till June 11) and a new production of Aida with Cheryl Studer (first night June 16). The Royal Ballet has Don Quixote with Sylvie Guillem and Viviana Durante alternating as prima ballerina in Anthony Dowell's staging of the Baryshnikov production (till June 25). A mixed bill including MacMillan's Winter Dreams opens on June 18 (071-240 1066)
Coliseum ENO's new production of Jenufa, staged by Lucy Bailey and conducted by Sian Edwards, opens next Wed with cast headed by Susan Bullock, Josephine Barstow and Kim Begley. Repertory also includes Peter Grimes starring Philip Langridge and Cosi fan tutte with cast headed by Vivian Tierney (071-836 3161)
Sadler's Wells Washington Ballet presents two programmes next week, opening on Tues, with choreographies by Nils Christe, Monica Levy and Choo-San Goh (071-278 8916)
CONCERTS
South Bank Centre Tonight: Krystian Zimerman piano recital. Sat: Daniel Barenboim conducts Chicago Symphony Orchestra in first UK performance of Elliott Carter's Partita, plus works by Strauss and Brahms. Sun: Algerian Rai musician Cheb Khaled. Tues: Music Theatre Wales presents Peter Maxwell Davies' The Lighthouse. Wed: Murray Perahia piano recital. Next Thurs and Sat: John Eliot Gardiner conducts Don Giovanni (071-928 8800)
Wigmore Hall Sat: Nash Ensemble and baritone François Le Roux in an 80th birthday concert for Felix Aprahamian (071-935 2141)
Barbican Sun, next Thurs: Kent Nagano conducts LSO in two programmes with violin soloist Viktoria Mullova. Tues: Midori violin recital (071-638 8891)

■ MADRID

Teatro Lirico La Zarzuela Tonight and Sun: Odon Alonso conducts Emilio Sagi's new production of Emilio Arrieta's 1871 opera Marina, with cast headed by Alfredo Kraus and Ana Maria Gonzalez (01-429 8225)
Auditorio Nacional de Musica Tonight: Spanish National Chorus in contemporary Spanish works. Tomorrow, Sat, Sun: Antoni Wit conducts Spanish National Orchestra in works by Lutoslawski, Mozart and Musorgsky-Ravel, with piano soloist Ewa Poblocka (01-337 0100)

■ MILAN

Teatro alla Scala Tonight, Sat, next Tues, Wed and Fri: Giuseppe Sinopoli conducts Luca Ronconi's production of Elektra, with cast headed by Sabine Hass/Janis Martin, Reinhild Runkel/Hanna Schwarz and Horst Hiestermann. Tomorrow, Mon (with seven further performances till June 30): Riccardo Muti conducts Gilbert Deflo's production of Rigoletto, with cast headed by Leo Nucci, Roberto Alagna and Ruth Ann Swenson (02-7200 3744)
Teatro Nuovo Tonight, tomorrow: Ballet of La Scala in Roland Petit's Tout Satie (02-7200 3744)

■ NAPLES

Teatro San Carlo Tonight, Sun, next Wed: Manon Lescaut with Miriam Gauci and Nicola Martinucci (081-797 2331)

■ ROME

Teatro Valle Tomorrow: Edita Gruberova song recital. Sat, Sun, Mon, Tues: Daniele Gatti conducts Orchestra dell'Accademia di Santa Cecilia in works by Tchaikovsky and Prokofiev, with mezzo soloist Olga Borodina (06-678 0742/ 06-6880 3794)

■ SPOLETO

This year's festival runs from June 22 to July 10. Highlights include a staging of Wozzeck by avant-garde German producer Günter Krämer and a Poulenc double-bill pairing his surreal opera Les mamelles de Tirésias with a reconstruction of Nijinska's original choreography for Les Biches. There will also be performances by Martha Graham Dance Company and Roland Petit's Ballet National de Marseille (Associazione Festival dei Due Mondi, Via Cesare Beccaria 18, 00196 Rome. Tel 06-321 0288 Fax 06-320 0747. Tickets can be bought at the Teatro Olimpico in Rome 06-323 4890 and at the Teatro Nuovo in Spoleto 0743-40265)

■ TURIN

Teatro Regio Edita Gruberova gives a song recital on Mon. The next opera production is La Cenerentola, opening on June 14 and running till June 30 (011-881 5214)

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

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NBC/Super Channel: FT Reports 1230.
TUESDAY
Euronews: FT Reports 0745, 1315, 1545, 1815, 2345
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FRIDAY
NBC/Super Channel: FT Reports 1230
Sky News: FT Reports 0230, 2030
SUNDAY
NBC/Super Channel: FT Reports 2230
Sky News: FT Reports 0430, 1730;

Small, trendy but imperfectly formed

BOOK REVIEW

LEAN AND MEAN:
The Changing Landscape of Corporate Power in the Age of Flexibility
By Bennett Harrison
Basic Books, New York, $25

For the past 15 years, conventional wisdom has been that small is both bountiful and beautiful in business. With large companies – from IBM to Kodak, General Motors to Westinghouse – finding it ever harder to adjust to an era of radical change, their days are numbered, the argument runs. Instead, small companies have become the prime driver of job creation, technological innovation and economic growth. For every Microsoft, Benetton or Body Shop, surging from small to large with remarkable speed, there are thousands of agile minnows which will never grow so big, but which are the economy's powerhouse.

Nonsense, says Bennett Harrison, a Pittsburgh professor of political economy who, as the author of recent books on American "deindustrialisation" and "working poverty", is no stranger to controversy.

Instead, he argues that the prime motor of economic growth is becoming flexible, worldwide "networks of production". These are dominated by large companies but contain dependent minnows with a "dark side": unskilled, low-paid and unprotected workforces.

Even in vibrant local regions and districts such as those in northern Italy and Silicon Valley, the idealised picture of clusters of interdependent, innovative small companies sparking each other's growth is incorrect, says Harrison. Such districts are coming increasingly under the influence of large companies, from Benetton to Japan's Fujitsu. He complains that their global networks are wreaking havoc with traditional government policies for regulating big business.

To back his case against what he calls "the myth of small firms", Harrison has certainly done his homework: a fifth of his 300-page book consists of references to research by others in economics, social science, technology and business strategy. He has, it seems, examined almost every side of every argument about the subject. Almost, but not quite.

His evidence on the overstated role of small companies is important, but less forceful than it looks at first sight. This is partly because his definition of "small" is inconsistent: sometimes he confines it to organisations of less than 20 employees, sometimes of under 100 and occasionally higher still. Most of the research studies he collates and compares have also already been published, notably the work of a team which includes Professor James Medoff, an influential Harvard economist.

In simple terms – though the statistics are far from simple, hence the continuing controversy – Harrison argues that there has been no upward trend whatever over the past quarter century in small companies' share of employment in Japan and western Germany, the world's two most successful large economies. In the US, a modestly growing relative share of smaller units of production is discernible – not all of them owned by smaller companies, however – but only for manufacturing; in services, the average size of unit has grown.

Only in the UK, Harrison argues, is there uniform and unambiguous evidence that small is becoming increasingly bountiful, both for individual plants and for whole companies. But, as he says, that may be more a function of the failure of large manufacturers than a gauge of the real vibrancy of small enterprises.

Against the belief that small companies are more innovative than large ones, Harrison cites studies which suggest that this is definitely not true of process innovation (in production, information technology and so on) and is questionable in product innovation.

Harrison's corrective to the "small is beautiful" doctrine is especially timely in American political terms. Debate about the justification for a new industrial policy, and the shape it should take, has been under way ever since President Bill Clinton took office.

But that debate has encouraged Harrison to take a polarised position on several counts. First, most of the book is about manufacturing; there is too little discussion of the implications of the rapid recent American (and British) shift to services. Nor does he examine properly whether the accelerated pace of information technology and large company subcontracting favours only big service providers, or also specialised enterprises on a smaller scale.

Second, in his haste to refocus attention from small companies on to large ones, he falls into the common trap of almost ignoring those in the middle. The real story of Italian and especially German industrial success has not been very small companies, but specialised medium-sized ones. In a world of global networks, small may not be as powerful as was once thought, but medium size may remain so in certain products and services.

Third, in spite of his evident and interesting expert knowledge of the real workings of Italy's (government-supported) "industrial districts", some of his other perceptions about Europe are superficial. To cite the recent spate of cross-border takeovers and alliances as a sign of future strength in European big business is to ignore not just the weakness of some of those large companies, but also the evidence that most such takeovers fail.

On the other hand, Harrison provides plenty of meat for business people and politicians to chew on in the juxtaposition of his two main themes: the changing shape of concentrated corporate power, from centralised to dispersed; and the political, economic and social dilemmas which this creates for both national and state governments.

Oddly, in spite of all his concern about the socially "dark side" of global network production, he offers few specific policy recommendations, other than better enforcement of existing labour laws, and the provision of greater technical assistance to small and medium-sized companies.

Christopher Lorenz

THE FT INTERVIEW: Ruud Lubbers, Dutch prime minister

Spoiler in the Euro contest

Mr Ruud Lubbers ought to be feeling very sore. This week, the Dutch prime minister saw his bid to succeed Mr Jacques Delors as president of the European Commission blocked by a Franco-German steamroller in favour of Mr Jean-Luc Dehaene, prime minister of neighbouring Belgium. Once the favourite, Mr Lubbers finds himself scrambling to salvage his candidacy.

The Franco-German preference for Mr Dehaene is a clear snub; but Mr Lubbers appeared unruffled yesterday morning as he sipped black coffee in his office in the centre of the Hague. "The choice that has to be made now is not only a choice to be made by Bonn and Paris, . . . it is, of course, up to all other countries [of the European Union]."

His appeal to a broader constituency remains his strongest card; but it poses an explicit challenge to the Franco-German axis which has set the direction of the Union for the past 30 years. Unless he or Mr Dehaene withdraws, there could be an unseemly row at the European summit in Corfu on June 24-25, when EU leaders are set to decide in secret on the successor to Mr Delors.

For Mr Lubbers, this is a painful prospect. A consensus-seeker schooled in the art of coalition-building in Dutch politics, he has spent 12 years brokering compromises inside the EU with German Chancellor Helmut Kohl and French President François Mitterrand – on issues ranging from the mind-numbing detail of the EU budget to German unification and the Maastricht treaty, which he pulled off at the end of the 1991 Dutch presidency.

Yet the Lubbers candidacy now transcends personalities. It is about the place of the Netherlands inside the Union, and the dilemma of smaller states struggling to preserve their influence ahead of the prospective entry of four new members from Austria, Sweden, Finland and Norway.

The Dutch dilemma is poignant because the Netherlands has never won its fair share of Euro-spoils, despite being an EU founder member. Unlike Belgium or Luxembourg, it has failed to secure Euro-institutions such as the European Parliament, the European Commission or the European Court of Justice, which are money-spinners for the local economy. Only last year, the Dutch bid to put the European Monetary Institute in Amsterdam was dashed by Mr Kohl's insistence on locating the forerunner of the European central bank in Frankfurt.

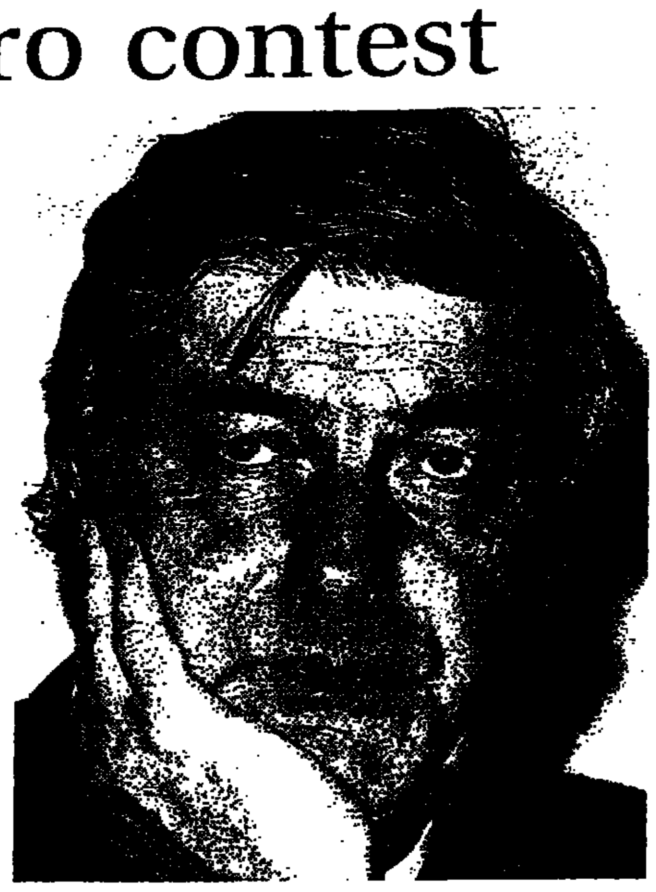
The Lubbers candidacy was supposed to redress the balance. Here was a prestigious post which Mr Delors has changed beyond recognition since he first arrived in Brussels almost 10 years ago. Thanks to Mr Delors, the president of the Commission is not just a top-flight bureaucrat, he is the public face of the Union. With his Christian Democrat background, and 12-year membership of the club of EU leaders, Mr Lubbers looked like a shoe-in. So what went wrong?

Mr Lubbers concedes he may have alienated the French and the Germans earlier this year by refusing to commit himself to entering the race. He was worried about distracting public attention from last month's Dutch general election at a time when Mr Elco Brinkman, his hand-picked successor, was struggling to take over his mantle. He had also pledged to Queen Beatrix to serve out his term as prime minister, which precluded a public campaign for the Brussels post of the kind waged by Sir Leon Brittan, chief EU trade negotiator. Sir Leon and Mr Peter Sutherland, former head of Gatt, are long-shot contenders.

In retrospect, Mr Lubbers's reticence looks like a miscalculation. The French seized on Mr Dehaene, a French-speaker on the left wing of the Christian Democrat party, who had impressed during last year's Belgian presidency of the EU. Mr Kohl, who favoured initially Mr Wilfried Martens, a former Belgian premier, fell into line.

Mr Martens did not command the support of his own government, so "Kohl feared that he was empty-handed", says Mr Lubbers, adding mischievously that the rotund Mr Dehaene had the *goesting* (appetite) for the top job.

That may not be the whole story. Mr Lubbers and Mr Kohl have never been close. Nor did the German chancellor appreciate the Dutchman's call for clarity about the German-Polish border during German unification, challenging Mr Kohl's preference for leaving the question open in order to placate the German right ahead of the 1990 general election. So is he too independent-minded for Mr Kohl? The Dutch prime minister pauses: "Perhaps."



Headline

Ruud Lubbers: no longer favourite to be Commission president

'We should not accept too easily lots of exceptions and differences in speeds'

There is no question that Mr Lubbers has his own views on the future of Europe. He is keen on a common European defence evolving under the umbrella of the Nato alliance, and is frustrated with the UK government for dragging its feet. He also supports European monetary union, mainly because the Dutch are certain to be in the vanguard along with the Germans.

Yet he is sympathetic to British warnings about the risks of integration moving too far ahead of European public opinion. Even in his own country, he feels that enthusiasm for Europe is diminishing. Hence the need for Europe's leaders to restore a sense of mission. He offers three slogans:

- Efficiency. Mr Lubbers, who comes from a line of Rotterdam industrialists, wants tighter controls on the Ecu70bn annual EU budget and a bigger role for the Court of Auditors, the spending watchdog. "People must have the feeling that resources are well spent."
- Democracy. He wants more transparency in decision-making. He favours a bigger role for the European Parliament in shaping legislation, more public debates with the Commission, and more involvement by national parliaments in areas of inter-governmental co-operation under the second and third pillars of the Maastricht treaty, such as foreign policy, security and justice matters.
- Credibility. He is worried about the EU stretching its ambitions. He cautions against a "Big Bang" conference to review Maastricht in 1996 which could introduce more qualified majority voting in an expanded union. He welcomes the "inevitable" EU membership of the central European countries such as Poland, Hungary and the Czech Republic; but he warns against arousing unrealistic expectations about the timing of entry.

Yet Mr Lubbers wants the EU to work. Without criticising Mr John Major's call this week for a multi-speed Europe, he says the principle of opting out should apply only to the second and third pillars. On Emu, he concedes that some countries may move faster than others, "but there must be a limited time difference. We should not accept too easily all sorts of exceptions and differences in speeds."

On the other hand, Mr Lubbers has little sympathy for French calls for a club of "founder members" led by France, Germany, the Benelux and Italy – an idea floated again this week by Mr Alain Lamassoure, France's minister for European affairs.

"I find this fascinating. Why? Because he suggests that the old Six should give a new example of what to do. But he [Lamassoure] writes the article on the very same day as two of them, France and Germany, come out of the preparations for the next [European] Council not as Six but as Two. Italy and the Netherlands are included in his architecture, but are excluded from consensus-seeking."

There is a firmness in tone which suggests that Mr Lubbers is loath to let a Franco-German diktat push him out of the race. So is he ready to take his candidacy "down to the wire" at Corfu? "Yes," came the unequivocal response.

Lionel Barber and Ronald van de Krol

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

India's policy right for monetary growth

From Mr S K Rao.

Sir, Martin Wolf's report on India ("India resists IMF pressure over currency", May 26) illustrates the type of dilemma which liberalising economies face in the management of exchange rate policy.

India's exchange reserves accumulated to present levels mainly on account of portfolio flows, which can easily flow out again should the foreign investors reassess the relative attraction of India as a market. Adjusting exchange rates to the size of reserves could thus run the risk of introducing a degree of exchange rate volatility which could undermine investor confidence. Surely, what the government of India is doing is right: to try to sterilise foreign exchange reserves to ensure that monetary growth is stable.

India's fiscal deficit had been high partly because of reduced revenues from customs duties which was in turn due to reduced tariffs combined with low level of imports and investment. The trick is to find ways of promoting investment. Under the present conditions, by throwing open infrastructure projects (communications, power, etc) to private sector investment in a much more vigorous fashion, it might be possible to induce a revival of private sector investment, including foreign. Investment in infrastructure is import-intensive and the present reserves should provide the cushion needed for it.

Improving incentives for investment, rather than adjusting exchange rates, will be the key for improving growth, fiscal balance and reserve management.

S K Rao,
7 Maresfield Gardens,
London NW3 5SJ

Not just great – but 'The Master'

From Professor J R Pole.

Sir, Your correspondent Laura Thompson needs to do some serious reading. She says ("Brian Lara – the dream machine", May 30) that Jack Hobbs was "another great cricketer, but not in the racehorse class" – meaning (apparently) not in the highest class. Hobbs, the first cricketer to be knighted, was certainly the only cricketer to share with Henry James the accolade of "The Master".

I would submit that he was the greatest batsman, and probably the best cover point, between the age of W G Grace and that of Don Bradman – a very long innings, which took in the profound alteration in the way the game was played after the first world war.

Hobbs mastered the mystery of the googly, which I believe Grace considered an "unfair" delivery. He scored 197 first-class centuries, incredibly hitting 100 of them when more than 40 years of age, which Bradman could not have done. He and Herbert Sutcliffe once batted all day on a sticky Melbourne wicket, a project in which Bradman would not even have been interested.

Hobbs was not only the greatest but also the best-loved player of his era. If he did not often amass the very high scores which became more common in the Bradman era, it was at least partly because he tended, soon after getting his 100, to present his wicket to the bowler he had flogged the most (or so I've heard).

He was supremely elegant and someone (Cardus? Swanton?) once remarked that he never played an ungrammatical stroke.

Incidentally, Brian Lara has not come out of the blue. Everyone in Kingston, Jamaica, was talking about him when the Australians were last there. They were impatient for Greenidge to retire – to which Greenidge replied by hitting 215 or so in the fifth test.

J R Pole,
20 Divinity road,
Oxford OX4 1LJ

A limit to options excess

From Mr Peter Brown.

Sir, We would support David Rhoads's warnings (Letters, May 27) of legislative action, based on US experience, if aspects of executive pay are seen to be excessive. The pensions "cap" is a recent UK example and some elements of option awards must be in the sights of future ministers and their advisers.

The accusations of excess lie not in exercising options but immediately selling the entire holding, and it is this aspect of scheme design that is principally exercising remuneration committees and investors.

If on exercise of an option worth more than 30 per cent of current salary an executive could only sell enough shares to allow him/her to reinvest in purchasing the remainder of the option entitlement for a further period of, say, three years, the danger of the "inspired" sales of option shares would be reduced.

The trouble with 1984 executive option legislation was its uneasy balance between the concepts of long-term performance awards and shareholding democracy as many more holders have used options as a one-way bet on a bundle of cash rather than becoming real shareholders.

Option rights restricted to the reinvestment of cash in some retained shares would restore the concept of shareholding executives without any knock-on effect on revenue or other related legislation.

Peter Brown,
chairman,
Top Pay Research Group,
9 Savoy Street, London WC2

Focal point for energy efficiency

From Lord Moore and others.

Sir, As independent directors, we should like to correct two of the points made in your editorial, "The cost of saving energy" (May 25), on the objectives and organisation of the Energy Saving Trust.

You state that the trust is intended to subsidise household improvements such as low-energy light bulbs, efficient boilers and loft and wall insulation. While the trust does plan schemes that involve these measures, our objective is to nurture and stimulate embryonic markets to sustainability so that resultant products and services can replace their more inefficient counterparts. The success of our gas condensing boiler scheme illustrates this principle, with nearly 10,000 applications for a £200 rebate on the cost of installing this type of boiler received during the scheme's one year pilot. Resulting competition and volume production have already led to a 10 per cent reduction in the average price of such boilers, with several new producers and suppliers entering the market. As with all of our schemes, the level of rebate provided will be reduced progressively as the price differential decreases over time.

You also comment that "the trust lacks the administration to disburse £300m a year in parcels of several hundred pounds, let alone to identify which households should benefit". As we explain in our strategic plan, the trust does not intend directly to manage any schemes itself. Instead, it will determine the most effective method of delivering each scheme and then select the appropriate delivery mechanism. Some will operate at a national level, others will be implemented regionally within a national framework, while some will be best run independently and locally. Project implementation will be carried out by the most appropriate external body, either through a contractual agreement with the trust or under the trust's monitoring and evaluation procedures.

The trust wishes to be a focal point for energy efficiency work in the UK but has no wish to duplicate expertise already developed over many years. Instead, our intention is to remain a small organisation, dedicated to catalysing new ideas into practical schemes.

Moore of Lower Marsh,
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Thursday June 2 1994

Case for global social security

The richest fifth of the world's population generates – and enjoys – 85 per cent of world output. The poorest fifth produces – and struggles to survive on – just 1.4 per cent. This extraordinary maldistribution of global prosperity seems difficult to justify. But it also means that a great deal can be done for the poorest at relatively limited cost to the richest. To the credit of its authors, at least parts of the agenda put forward in this year's United Nations Human Development Report for next year's World Summit for Social Development meet that test of practicality.

One of the peculiarities of 20th-century social security systems is that what might seem a universal moral obligation upon the rich to help the poor has been turned into a narrower obligation to help fellow citizens. The treatment of national income as a form of private property is politically inevitable. Its moral justification is harder to detect.

It also has very practical consequences. At present the industrial countries allocate 15 per cent of their combined national incomes to providing social security at home, while only 0.3 per cent goes on foreign aid. The domestic social safety net helps those 100m fellow citizens who receive average incomes of less than $5,000. But the poor in developing countries number some 1.3bn, with average incomes of less than $300 a year. Yet, incredibly, the impression persists, particularly in the US, that foreign aid is a major diversion of resources from the more deserving at home to the undeserving abroad.

Tricky choices

The challenge of securing what the report calls "sustainable human development" is therefore just as much to the supposedly caring left of the political spectrum of the advanced countries as to the allegedly unfeeling right. Everyone would have to accept large changes to their normal way of looking at things.

The report also shows that once wealthy countries, under the influence of their powerful environmental lobbies, have raised the standard of global sustainable development, it is they, once again, who will face the tricky moral choices. "The north has roughly one-fifth of the world's population...and consumes 70 per cent of the world's energy, 75 per cent of its metals and 85 per cent of its wood." If global resources and carrying capacity are indeed limited, as environmentalists insist, then the north's free access to these globally scarce assets cannot be justified. If, for example, the environment were correctly priced and permits issued on the basis of population, as well as of gross domestic product, rich nations might have to transfer 5 per cent of their combined national incomes to the poor.

Human development

When confronting people with choices this painful, it is wise to offer an escape. The report's way out is a specific practical proposal, justified under the label "human security". It argues *inter alia* for a compact on human development, aimed at meeting the basic needs of everyone: access to primary education and health care, clean drinking water and sanitation; immunisation of all children; halving of maternal mortality; access to family planning services for all who want them, halving of adult illiteracy and elimination of severe malnutrition. Among the benefits of this programme could be a marked reduction in fertility.

This programme, it argues, would cost a mere $30bn-$40bn a year, about a third of what developing countries spend on their military and 5 per cent of the global arms budget. This could be provided by devoting 20 per cent of total developing country budgets and 20 per cent of industrial country aid to these objectives.

This compact is, of course, a far cry from the report's more ambitious ideas for a "global human security fund", financed by some form of global taxation. It would not of itself necessarily halt the political and social disintegration that now threatens the survival of countries such as Afghanistan, Angola, Haiti, Iraq and Mozambique. But the merit of this report is that it does more than make readers think large thoughts about the peculiar world in which we all live. It also presents politically and organisationally practical ways of making it somewhat less peculiar.

A Europe of many layers

Purists might query whether Mr John Major is well-advised to discuss the future of Europe in language reminiscent of that of a Formula One racing commentator. Yet the UK prime minister's speech on Tuesday night, espousing a "multi-track, multi-speed" Europe, was in many ways a statement of the obvious. The Maastricht treaty endorses the concept of European integration proceeding at varying paces. By gaining exemptions from the Maastricht arrangements over social policy and monetary union, the UK has already enshrined the principle in European law.

Since the 1992-93 collapse of the narrow-margin ERM, patterns of EU monetary co-operation, for instance, have become still more heterogeneous. Over home affairs, as well as defence and foreign policy, different EU groupings are carrying out inter-governmental co-operation in different ways. As the EU grows, perhaps to 16 countries next year and more than 20 by early next century, the tendency towards greater diversity is likely to strengthen.

At a time of rampant electioneering, it was perhaps not surprising that Mr Major's self-evident remarks should have been seized on as a novel statement of government policy. Almost inevitably the prime minister's remarks attracted catcalls from the opposition that he is irredeemably abandoning the UK to the "slow lane" of Europe.

Mr Major's problems are partly of his own making, but they also reveal how Britain is ensnared by contradictory fears about the development of Europe. The chief difficulty with the prime minister's rhetoric is that he is trying to send different messages to separate audiences. As a result, both messages and audiences become confused.

Overt move

Talk about opting out of layers of European integration may assuage Eurosceptics' concern that Britain's interests could be undermined by policies foisted on it from the Continent. Yet such comments disconcert those who are worried that an overt move towards political and monetary union by a group of countries led by France and Germany could cause Britain serious economic damage. Equally, Mr Major's trumpeting of a "multi-speed" Europe conflicts with his insistence during the last three years that Britain maintains a well-regarded place at the topmost tables of European decision-making. Even in the contorted world of Europolitics, theories of black hole physics do not apply. Mr Major cannot both be "at the heart of Europe" and simultaneously walk away from it.

Independent policies

At a broader level, Mr Major's statements over Europe mirror ambivalence in many EU capitals over the continent's future. By underscoring the advantages of Britain's retention of more independent social and monetary policies, Mr Major wants to lend weight to those in other EU countries who doubt the wisdom of a federal Europe.

These doubts certainly exist, and they have grown since 1991. As demonstrated by the opinion poll in yesterday's Financial Times carried out across the 12 EU members, the German electorate, in particular, has become increasingly opposed to closer integration as laid down by Maastricht.

Recent French government proposals for intensified co-operation by a Franco-German "core" appear, at least in part, to reflect worries in Paris about a slippage in Germany's Maastricht commitment, above all over monetary union. Some of these German doubts are, it seems clear, also felt at the highest level in Paris. It is worth recalling that, before he became prime minister, Mr Edouard Balladur publicly voiced scepticism about attempts to "bind" Germany to western Europe through devices such as Maastricht.

In view of the elections in Germany and France over the next 12 months, the clouds which hang over the direction of European policies are unlikely to lift until the EU is much closer to the Maastricht review conference in 1996. In the meantime, the EU will be well served if a consensus gains ground that, in many spheres, the degree of integration should be closely tailored to individual members' political preferences and economic capacities. Whatever his motives, Mr Major has made a sound point.

ECONOMIC VIEWPOINT

Sad jubilee of a white paper

By Samuel Brittan

Although most of the junkets which economic scribes are attending this summer relate to the 50th anniversary of the Bretton Woods institutions – the IMF and World Bank – and the 300th anniversary of the Bank of England, it is arguable that another anniversary is almost as important. I refer to that, last week, of the 1944 white paper on unemployment policy by the UK's wartime coalition government. This expressed the determination of British leaders not to return to the horrors of interwar unemployment. In the UK, as elsewhere, full employment was once an uncontroversial bipartisan objective, actually achieved between the end of the war and the early 1970s.

A common feature of the platform of all the candidates for the Labour leadership is their expressed determination to restore full employment. This, of course, is easier said than done, as can be seen from the example of France, which has been mostly under Socialist rule since the early 1980s, but where unemployment is 2½ percentage points higher than in the UK; or Sweden, which maintained low unemployment for much longer than most countries, but where the jobless rate has now soared to 8¾ per cent.

It is, indeed, now quite usual for historically minded economists of all schools of thought to pay justified tribute to the wisdom and prescience of the white paper, which warned – decades in advance – of the difficulties that might occur. But at the time it was a compromise document. It trod a middle way between the apostles of Keynesian demand management in the economic section of the Cabinet Office and Treasury officials concerned to balance the budget at least over a business cycle, worried that the UK was at the mercy of world economic forces and anxious that the UK should pay its way in a harshly competitive postwar world.

The white paper's famous first sentence began: "The government accepts as one of their primary aims and responsibilities the maintenance of a high and stable level of employment after the war." Keynes thought this more important than the whole of the rest of the paper.

But did the government accept such a commitment? It accepted responsibility for maintaining "total demand for goods and services at a high level". But this was coupled with the now-famous warning that "policies to maintain demand will not work in securing high employment unless employers and workers exercise moderation in wage matters so that increased expenditure at the onset of a depression goes to increase employment rather than pay and prices". But the white paper had few suggestions for ensuring moderation other than exhortations of the kind resorted to by postwar governments.

Even when it came to maintaining total spending, the white paper had a less than total commitment. The authors were, for instance, obsessed with the external component of demand, which was not under British control. It is also easy to read back too much into the white paper. Its authors did not discuss clearly the choice between maintaining nominal and maintaining real demand. But read in context with the warnings about pay and prices, it is natural to interpret it in terms of maintaining demand in money terms, that is nominal demand. Demand management in real terms and "funny money" control of public expenditure intruded as the official forecasters and statisticians began to cope with creeping postwar inflation.

The aim of controlling aggregate expenditure needs to be reinstated. There is nothing in this aim which a common-sense monetarist should reject. After all, why does he believe in monetary targets? It is because he asserts that there is a stable relationship between the money supply, M, and total spending measured by MV (money x velocity) – which implies that he values a stable growth in the latter.

Unfortunately the recent move to define macroeconomic policy entirely in terms of an inflation target is a step backwards. This is explained well by James Meade in his new pamphlet, *Full Employment without Inflation* (Social Market Foundation, £6). Suppose output were to drop in one year by 10 per cent, while inflation was just over 1 per cent. There would be no breach of the government's stated objective of keeping inflation in the 1 to 4 per cent band and no obligation to take countervailing action. Such action would – have to await evidence of actual deflation. An objective for total expenditure would lead to earlier offsetting action.

Maintaining adequate, but not excessive, monetary demand has two main functions. One is, as the last example shows, to prevent a downward spiralling slump; the other is to prevent a serious inflationary take-off by putting a lid on growth of total spending. Thus one big switch in thinking, compared to the white paper, is that demand management is today used to contain inflation, in place of the jawboning or industry-union talks the 1944 document envisaged.

The aim of controlling aggregate spending should be reinstated. No rational monetarist should object

The term "structural" – or, better, "hard core" – can legitimately be used for that part of unemployment which cannot be permanently reduced by maintenance of demand. It is this element which has been rising from one business cycle to the next, and which is especially bad in Europe. The proximate explanation for this hard core is that pay and related costs make workers unprofitable to employ.

With the clear failure of demand deficiency to account for the bulk of the rise in European unemployment since the early 1970s, attention has naturally turned to this aspect. If the price of any particular service is raised, less will be bought – both because purchasers can afford less and because they have an incentive to substitute something else.

The emphasis of economists such as Patrick Minford of Liverpool University has been, however, not on monopoly labour pricing, as such, but on the level of benefit when out of work. These economists make the benefit ratio – that is, the ratio of benefits to average pay – the fulcrum of their whole explanation. The benefit level is supposed to provide the floor or reserve wage below which it does not pay to take a registered job.

The pricing-out-of-work and benefit-level explanations come together in the assertion that, without the dole, pay rates would drop, as people would have to price themselves into work to survive. I prefer the pricing-out formulation because it leaves space for institutional, psychological and even moral forces, which – quite apart from the dole – stop pay from shifting to market clearing levels.

If governments rightly hesitate to attack the benefit floor, the one weapon with which they are left is sufficient flexibility in wages and other labour costs to price people into work. This is not a policy in the direct instrumental sense; but it involves taking every opportunity to break down labour market barriers of which union pay-setting is only one example. It is more or less consistent with the British government's approach to European labour markets, as opposed to proponents of the Social Chapter.

Accepting the pricing-out-of-work explanation does not entail the advocacy of starvation wages. If market clearing pay rates are regarded as intolerably low, at least three courses are open. The first – the counsel of despair – is to accept high unemployment as an alternative. The second – counsel of perfection – is to try to raise the market value of workers' services by the nostra of education and training so that customary pay rates are no longer a threat to employment. The third is supplementary payments to lowly paid families.

The real weakness of the pricing-out-of-work thesis, as often expounded, is its timelessness – a weakness rarely spotted by the critics. Why should there be so much more pricing-out-of-work in some periods than in others? Or, to put it in macroeconomic terms, why should the rate of unemployment consistent with non-accelerating inflation (the "Nairu") have apparently been so low in the 1950s and 1960s and then risen so much in the later 1970s and in the 1980s?

The recent move to define macroeconomic policy only in terms of an inflation target is a step backwards

There are at least two reasons why unemployment could have remained so low in the early post-war decades. First there was the persistence of "money illusion" – the surviving prewar belief that a pound was a pound and a dollar a dollar. Insufficient allowance was made for inflation in pay and price behaviour; and so it was possible to run national economies with much tighter labour markets than before or afterwards without triggering accelerating inflation.

The second, and perhaps more interesting, reason is that postwar growth was a fairly straightforward process involving other countries catching up with best-practice, American techniques. Modest traditional pay relativities between industries, and between skilled and unskilled workers, were sufficient to balance the labour market.

The inflationary outbreak of the 1970s shattered remnants of money illusion for generations to come. A slacker labour market was now needed to prevent pay and prices chasing each other upwards. The relative demand for different types of labour was still for a time stable enough for central European and Scandinavian countries with strong traditions of social solidarity to hold real wages in check at modest levels of unemployment.

Thus demand management – whatever label was attached to it – could be switched to the struggle against inflation without large job losses. As the 1980s proceeded, however, the conditions required for these centralised agreements to work began to disappear. Traditional relativities between different industries and skills, or between areas of declining old-fashioned manufacturing industry and high-technology growth areas (for example, between north and south Germany), were no longer sufficient to clear labour markets. Meanwhile the rigidities imposed to obtain union consent for national economic policies became an increasing drag on performance.

The pressures that have come to the surface in Europe in unemployment and non-employment have expressed themselves in the US in pay stagnation and downward absolute income movements among the lowest 20 or 30 per cent of wage earners. No wonder Meade suggested that, to create 2m more jobs in Britain, average real wages would not merely have to be "restrained" but actually to fall.

How, then, can the rest of us top up the wages of the lower paid so that they can price themselves into work? The high marginal cut-off rates which create the poverty trap stem from the speed at which benefits taper off as incomes rise. If the system aims for the greatest generosity at lowest cost, the withdrawal rate is likely to be extremely high. On the other hand, if benefits are tapered off very gradually, poverty trap effects are reduced; but either the cost is prohibitively expensive or the benefits are far too low.

The best chance of advance is to act where the social security system unnecessarily discourages workers from accepting low-paid jobs or employers from offering them.

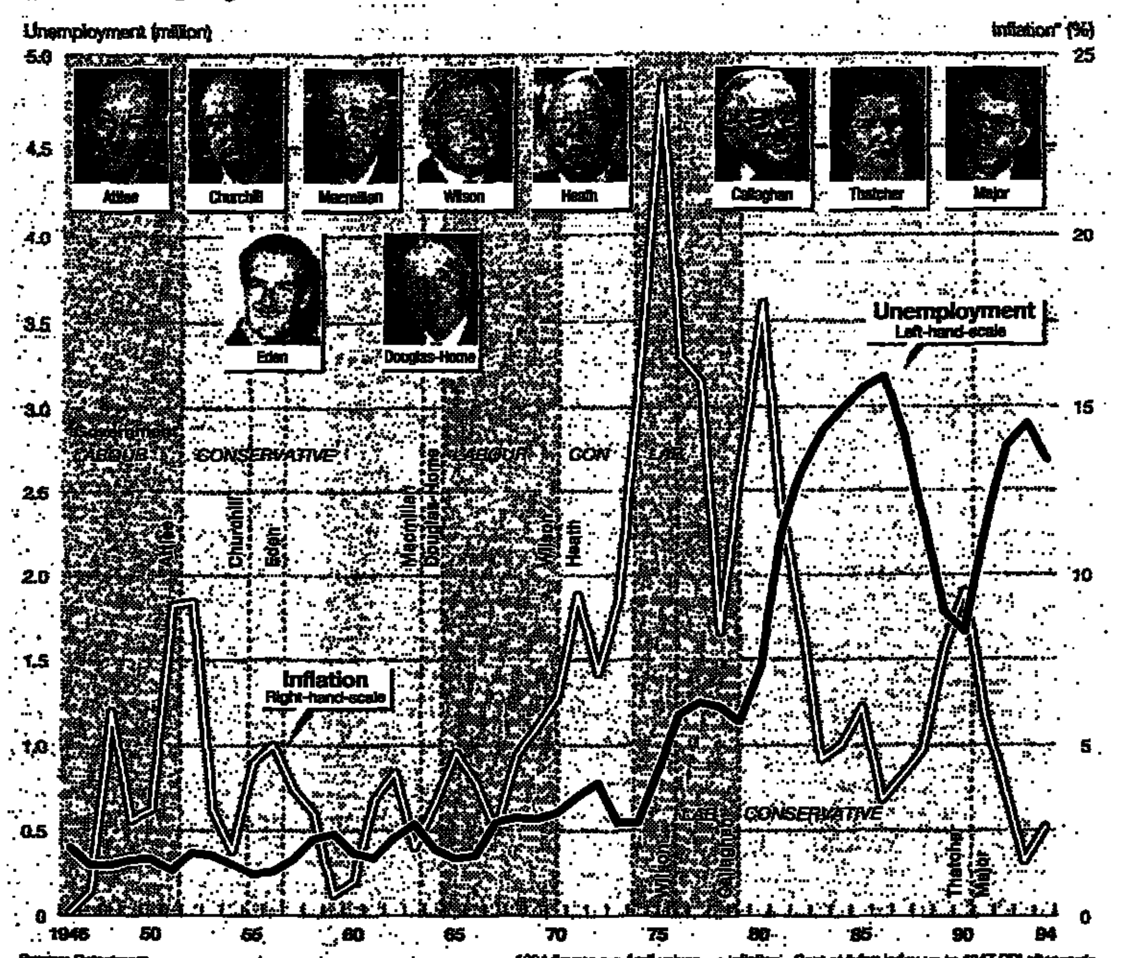
● Any government could quite inexpensively take a first step and extend the top-up for low income earners, known as family credit, to single people and childless households. This move would cost it about £250m a year in 1994 – trivial by the standards of modern public finance.

● It would also help if the withdrawal rate for income support for adults of working age could be reduced below 100 per cent and brought in line with the 70 per cent taper used for other income-related benefits. Specifically, it would encourage people to take spasmodic, casual or part-time jobs that did not qualify them for family credit, and to do so on a legal basis.

● Changes could also be made so that assessment for income-related benefit resembled tax assessment rather than a medieval inquisition.

This discussion has moved from monetary policy via labour market details to the arcane area of social security. The range indicates a little of the ground a new employment white paper would have to cover. I would feel more comfortable if we could replace all this with one big idea. But modest ideas with a chance of being right are better than big ideas which are wrong.

UK unemployment takes a turn for the worse



Source: Datastream   1994 figures are April values * Inflation - Cost of living index up to 1947 RPI afterwards

OBSERVER

Wry bread for Danes

■ Now it seems increasingly likely that the unwell Manfred Wörner, Nato's 59-year-old secretary general, will soon retire – he is not chairing a meeting of Nato foreign ministers in Istanbul next week – the hounds are already sniffing at the gate.

But although he has all the right credentials, one hopeful is facing disappointment. Denmark's Uffe Ellemann-Jensen, leader of the Danish Liberal party, has already had his card marked by none other than a fellow Dane, Poul Nyrup Rasmussen, leader of the Social Democratic party and head of the present government.

Ellemann-Jensen is the one Danish politician who easily strides across the international arena. Foreign minister between September 1982 and January 1993, he is revered in many east European countries for having stuck his neck out in support of their anti-communist independence drives.

But at home Ellemann-Jensen's habit of sharp-tongued straight-talking has earned him powerful enemies. Rasmussen has let it be known – via that trusted method, the media – that his government will not support Ellemann-Jensen, should he want the job.

Still, Ellemann-Jensen will only be available if he is still in opposition after this autumn's general election to the Folketing. And no-one is ready to place bets on Rasmussen's being around by Christmas.

Mile high club

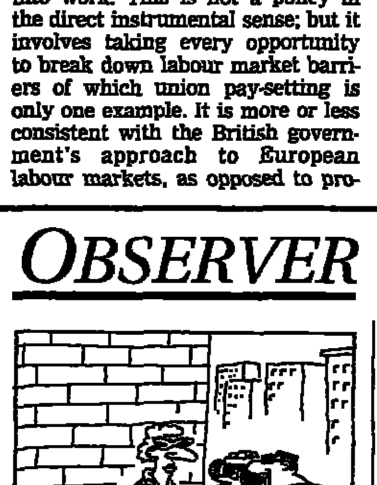
■ KLM Royal Dutch Airlines is experiencing an unusual industrial hiccup – an unexpected cabin crew shortage because of stewardess pregnancies.

Apparently the pregnancy rate among flight attendants this year has jumped 31 per cent – to 275 – from the usual figure of about 210 pregnancies annually among the airline's 4,400 stewardesses. Don't panic. KLM says no flights will be cancelled because of the staff shortage; a recruitment effort is under way.

Piers ploughman

■ The die is cast. Clearly Alan Clark – whose sexual exploits with two women and their mother have vitalised an otherwise enervated week for the British tabloid press – will be made to wriggle awhile on the hook.

For the acting editor who "broke" – or is it brokered? – the story in The News of the World, Britain's largest circulation tabloid newspaper, youthful Piers Morgan, 29, has been promoted to full editor. Patricia (ubiquitously known as Patsy) Chapman, 45, who has been on sick leave since January, is stepping down permanently. Evidently Rupert Murdoch, who owns the paper, likes what he sees in Morgan.



Downbeat daub

■ Poor old Denis. Lady Thatcher's husband should have been in his element at Tuesday night's bash at the Royal Academy, laid on by Guinness to celebrate its sponsorship of the RA's Summer Exhibition. Sir Denis's old golfing chum, Lord MacFarlane, chairman of Guinness's United Distillers, had asked him along as guest of honour, to thank him for all his help over the years, opening factories and suchlike.

But when it came to the highlight of the evening – the gift of a special bottle of hooch to mark the 500th anniversary of Scotch whisky – up popped the lady herself to accept the gift.

With her usual aplomb, Britain's ex-prime minister went on to argue that the RA was a "pure Thatcherite" organisation, because it was not supported by a "penny piece of taxpayers' money".

As for the exhibits, she opined that she shared Sir Winston Churchill's view: modern artists should not be let loose until they had proved they could paint a real picture.

Pehr pressure

■ Six months after his 23-year rule over Volvo collapsed, we are still in the dark about Pehr Gyllenhammar's precise role in the final days up to the Volvo management and shareholder revolt against his plan to merge with Renault.

But yesterday he decided to give a sneak preview, through a letter sent to the chairman of the Swedish parliament's constitutional committee.

Before the fateful board meeting on December 2, according to the letter, PG was uncertain if the merger would be torn up. Such was the "drama" surrounding the affair, he says, that his position as chairman was neither "the only nor the best source of information" on the outcome. Instead he refers – somewhat darkly – to "powerful interests" who decided to dump the project.

The constitutional committee has stirred controversy by suggesting that a cabinet minister – Ulf Dinkelspiel, minister for European affairs, whose company profited from trading in Volvo shares at the time – may have had inside knowledge from briefings Gyllenhammar gave the government on the affair that the merger was doomed.

So what *did* happen, PG?

Shaggy tail

■ Eugene Rotberg, former treasurer of the World Bank, has a tall tale concerning a banker, a corporate treasurer and a dog.

The banker and treasurer perambulate past a pet shop window and spy a dog for sale. The banker buys it for $5, then sells it to the treasurer for $10. A few days later, the banker wants it back, so he bids $20. The dog keeps changing hands until the banker buys it for $1m.

Then the dog escapes from the bank and is killed by a car. The treasurer is furious: "Couldn't you have been more careful?" he complains to the banker. "Don't you realise how much money we were making on that dog?"

FINANCIAL TIMES
Thursday June 2 1994

European Commission seeks private financing

EU must find funds for Euro-networks

By Emma Tucker in Brussels

The European Union must act to ensure that there will funds to build large transport, energy and communications networks in Europe, Mr Henning Christophersen, vice-president of the European Commission, said yesterday.

In a report to be presented to next week's meeting of EU economics and finance ministers on the funding of so-called trans-European networks, Mr Christophersen said possible financing problems for the projects were already alarming. He invited member states, EU institutions and private operators to consider how to maintain an adequate pace of investment.

Mr Christophersen stressed again the need to attract private finance to fund very large infrastructural projects. His comments came in the wake of another recent sharp rise in long-term European interest rates, pushed higher by investors' nervousness about inflation.

He said market trends this week made it ever more important to get a clear signal from next week's Ecofin meeting, and from the Corfu summit of Union leaders later this month, that ministers are planning to step up their anti-inflationary policies.

"This message is even more important than two weeks ago because the market fears that inflation is going to come back."

The recent rise in long-term borrowing rates will strengthen the position of those member states that are wary of proposals to raise extra funds through the issue of "Union bonds".

Mr Christophersen said the EU might consider co-financing with the European Investment Bank for priority projects.

Another option for capital market funding would be for the union to underwrite or guarantee private sector projects. Such guarantees could be made available to loans specific to projects that were co-financed with the European Investment Bank.

Mr Christophersen also pointed out that there was likely to be a shortfall in financing of up to Ecu6.4bn ($7.42bn) for Europe's 10 priority transport projects.

Projects receiving public assistance will have to satisfy economic viability tests. "They should be expectd to produce a substantial net benefit to society, taking into account also the external costs and benefits," he said.

He added that at Union level the European Investment Bank would be the largest single source of finance for the trans-European networks. In addition, the European Investment Fund, now operational, will work with the private sector in helping to allocate and manage risks.

Warning on finance for EU networks, Page 2

Reforms bring Wall St salaries to Bombay

By Nazneen Karmali in Bombay and Stefan Wagstyl in New Delhi

Financial reforms are creating a new elite in India, bringing Wall Street investment banks, aggressive headhunting and salary packages that tower over the earnings of the bank clerks of Bombay.

Salaries for the sought-after have risen 300 per cent in the past year and could climb further as US and European investment banks rush to set up shop in India's commercial capital to take advantage of the government's liberalisation drive.

Morgan Stanley and Salomon Brothers of the US have recently hired senior managers for salaries estimated at $400,000 including bonuses.

At that rate, the pay is at least five times more than these bankers were paid at their previous jobs at the old-established foreign banks in Bombay, and at least 100 times more than the salary of a typical Indian bank clerk.

"The cost of hiring in India is hitting international levels," Morgan Stanley Asset Management said. Mr Rafiq Dossani, a director of Jardine Fleming's Indian affiliate, added: "The difference between India and the rest of the world is narrowing sharply."

The differences are also being reduced by the arrival of non-resident Indians from the US, the UK and elsewhere. Companies are finding it difficult to pay their locally-hired top executives less than the non-residents who are also bringing with them a modern work culture.

Lap-top computers, digital diaries, and Mont Blanc pens have become commonplace among the financial elite. The top earners are beginning to imitate the lifestyles of the city's established business families. Taxes on imported cars are still prohibitively expensive, but owning two or three Indian models is well within the reach of bankers on better salaries.

Clothes are mostly bought abroad. Slick gelled-back hairstyles are the order of the day. Membership of Bombay's top dining clubs – the Belvedere at the Oberoi Hotel and the Chambers at the Taj Hotel – has become almost mandatory.

Women as well as men are getting top jobs, though not in the numbers. Ms Ratna Kakkar, who has recently joined Smith New Court, the British stockbroker, says: "Things are definitely more fast-paced."

Salaries are being pushed up by foreign companies establishing offices or increasing their staff. The arrivals are hiring middle- and junior-level staff including research analysts, corporate financiers and fund managers.

Median annual salaries for such people have hit $30,000-$40,000, a senior executive at one foreign broker said.

THE LEX COLUMN

Granada grows hungry

Granada's ambitions to expand its television and catering arms look sensible enough. While it is still too soon to know whether the LWT acquisition will enhance shareholder wealth, Granada was bullish yesterday at its interim results on how things are progressing so far. There would be an opportunity to apply the same rationalisation formula on another ITV company, with Yorkshire Tyne-Tees Television the group's favoured target.

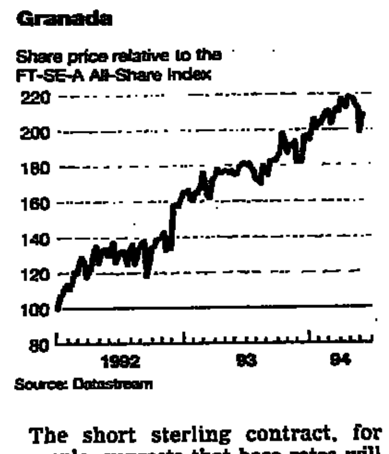
Similarly, there is presumably scope for rationalising Britain's fragmented catering industry. Granada has already proved it can manage such businesses. Margins at Sutcliffe, bought last year, are up 60 per cent. Chief executive Mr Gerry Robinson retains an affection for the industry from his days at Compass. And while there is nothing obvious on the market at the moment to bid for, Gardner Merchant could become available in a couple of years.

Financing further acquisitions should not be a big problem. The group as a whole, and the rental side in particular, are strongly cash-generative. Though the LWT deal has temporarily pushed gearing above 100 per cent, the more important measure of Granada's financial strength is its interest cover of 6.6. As cash from the BSkyB refinancing flows in, group gearing and interest cover will improve. If Granada is able to sell its BSkyB stake, worth about £500m, the position would be stronger still.

The longer-term question is whether there is any point in keeping TV, rental and catering operations in the same group. Mr Robinson shows no desire to split them. But investors watching Thorn EMI inch its way towards a demerger may have other ideas.

FT-SE Index: 2931.9 (-38.6)

Granada



Source: Datastream

UK gilts

The UK gilts market passed another milestone yesterday when the June future slipped through par for the first time since January 1993. Those groping for reasons may cite the steep growth in M0 money supply and evidence that the economy is continuing to grow despite April's tax increases. Such factors may indeed prompt the Bank of England to start wondering about when it should tighten monetary policy again. But cash selling has been limited. Gilts' weakness has been above all driven by speculative selling of the futures. That in turn leaves markets looking prey to some pretty irrational fears.

The short sterling contract, for example, suggests that base rates will be as high as 6.5 per cent by December and that they will rise by a total of two percentage points between September and June next year. That might just happen with a sudden resurgence of inflation and a sharp fall in sterling. The balance of probability is that it will not.

Cooler heads might prefer to consider yields of almost 9 per cent available on 10-year conventional gilts and nearly 4 per cent in index-linked paper. Gilts yield nearly two full percentage points more than their German equivalent. That is a rare premium which compares with a differential of only around 50 basis points when the market peaked. The water may still be choppy but fundamental value is discernible on the shore.

Wolseley

Wolseley's addiction to equity shows no sign of abating. Yesterday's placing of shares to fund a US acquisition is its third in little over a year. The company has raised around £220m – equivalent to more than a tenth of its market capitalisation – in that time by selling shares to institutional investors or the vendors of businesses it bought. Since Wolseley is one of the most tightly-held stocks in the FT-SE 100 index, the market is hardly awash with paper as a result. Even so, one might question whether Wolseley's aversion to debt is really necessary.

With the proceeds of the latest placing tucked away, the company will have around £80m net debt against shareholders' funds of £560m at the last count. While borrowings could rise in line with working capital as organic growth comes through, gearing of around 30-40 per cent would not look irresponsible at this point in the business cycle. The stronger argument is that equity is a perfect match for the kind of risks being assumed through acquisitions. But it takes a leap of logic to conclude that all acquisitions should be immediately funded by a matching issue of shares.

True, Wolseley's sequence of placings has saved it the bother and expense of a rights issue. But shareholders not on the list of privileged institutions have seen their stake in the business diluted over time. Given its relatively small circle of institutional investors – and exemplary record of growth – there is no question of shareholder revolt. As Wolseley matures and increases its international reach, though, old habits may have to change.

Anglo American

The 55 per cent increase in net assets per share reported by Anglo American Corporation is indeed striking. But it is also a reflection of the strength of the Johannesburg stock market on which many of its investments are quoted. That strength contributed to earnings as well, since high stock market values allowed Anglo to raise more from sales of investments. The R250m increase in the surplus on such sales offset setbacks in both coal and platinum. One issue raised by Anglo's results is thus whether buying in anticipation of the change in government pushed the stock market to levels that now limit its attraction.

Having more than doubled in the final quarter of last year, Anglo's share price needs more good news to propel it forward. The group may have difficulty repeating last year's strong performance in diamonds, but there is a chance of gold adding some further lustre. Though the dollar price of gold has been slow to respond to the revival of inflationary fears in the US, a weaker rand and careful cost containment have helped boost mining margins. One risk is that high wage demands following the elections could undermine these cost advantages. It would help if the international bullion price were to show signs of stirring. Since they are subject to the vagaries of the financial rand, foreign investors in particular may increasingly need comfort on this score.

Brown out of race to lead UK Labour party

By Philip Stephens, Political Editor, in London

One of the main contenders for the leadership of Britain's main opposition Labour party withdrew form the race last night – strengthening the position of the favourite, Mr Tony Blair.

Mr Gordon Brown, the Labour party's Treasury spokesman and a close friend and ally of Mr Blair's, bowed out of the race to succeed Mr John Smith, who died last month.

The Labour party leads the Conservative government by a wide margin in current opinion polls, and is seen to be well-placed to take power at the next general election, which must be held by spring 1997.

Mr Brown's decision means he will now give his full backing to Mr Blair and will be guaranteed his current post of shadow chancellor of the exchequer.

It is understood in talks between the two men – the party's leading "modernisers" – Mr Brown has been promised the pivotal role in shaping policy in any future Labour government led by Mr Blair.

Mr Blair, whose political instincts are in tune with mainstream European social democracy, has strong electoral appeal in Britain's key southern constituencies which Labour must win to beat the Conservatives. Currently shadow home secretary, he has the overwhelming support of the shadow cabinet and of Labour MPs. A substantial majority of trades union leaders also support him.

If he wins the leadership, the 41-year-old Mr Blair could become the youngest party leader this century with only a token contest. One member of the shadow cabinet said last night that the party's choice was now "a formality".

Mrs Margaret Beckett, acting Labour leader, Mr John Prescott, shadow employment secretary, and Mr Robin Cook, shadow trade and industry secretary, are all potential contenders for the leadership. Mr Cook was last night understood to be keeping his options open and Mrs Beckett has said she will not reveal her intentions until after the European elections on June 9.

But senior figures in the party last night appeared confident that both Mr Cook and Mrs Beckett would decide eventually not to run against Mr Blair.

That left Mr Prescott, the standard-bearer of the party's "traditionalist" wing, with a difficult decision of whether to contest the leadership or whether to stand against Mrs Beckett for the post of deputy leader.

Mr Brown said last night that he had taken his decision to clear up "the confusion" over whether he would fight Mr Blair for the leadership. He had only one consideration in mind – "to ensure the election of a Labour government to improve and regenerate our country".

He had brought forward his announcement to prevent speculation about his position detracting from the party's European elections campaign.

Bonds drop further

Continued from Page 1

lead to monetary tightening.

The June contract of the UK government bond future traded on Liffe, the London futures and options exchange, broke through 100 and fell as low as 99 9/32 before closing around 99 23/32, down 1 1/32.

In spite of a small reduction in the Bundesbank's securities repurchase rate, which fell 5 basis points to 5.15 per cent. This rate is used as a benchmark for interest rates in Germany.

German government bonds were also sold following remarks by Mr Guntram Palm, a member of the Bundesbank's policy making council, indicating that further interest rate cuts in the near term were unlikely.

However, German bonds did not suffer as much as other European bonds. The June Bund futures contract on Liffe fell to around 92.30, down 0.54. Bond markets in Scandinavia and southern Europe were also badly hit.

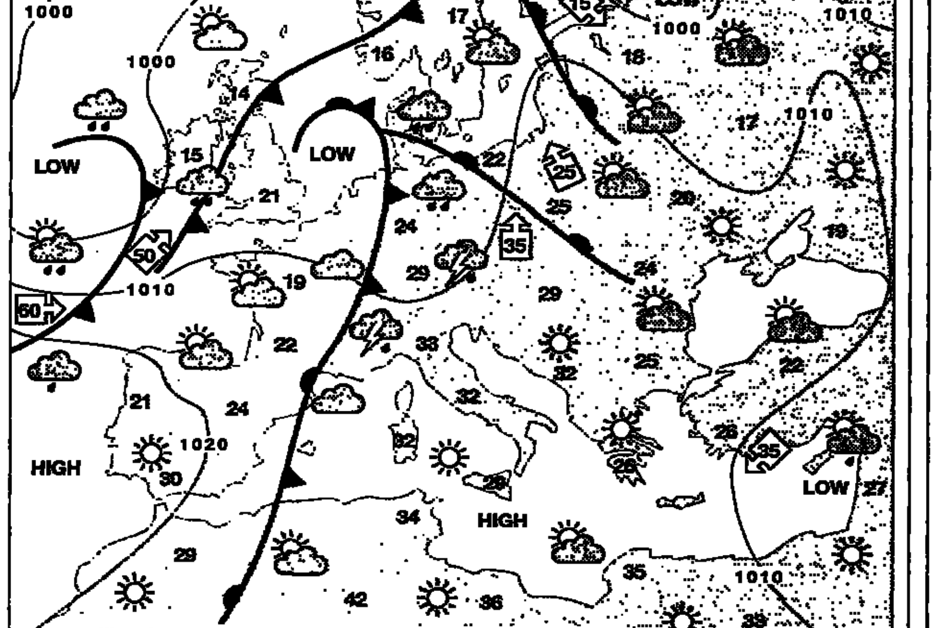
FT WEATHER GUIDE

Europe today

A frontal zone over Germany, marking the boundary between hot air over the continent and much cooler air in the west, will produce thunder storms over the Alps and much of Germany. Some thunder storms could be heavy with hail. The Netherlands, Belgium and western France will have sunny spells and scattered showers. The UK will have sunny periods in the east. A frontal system will approach western areas bringing cloud and rain to Ireland. Italy, Greece and eastern Europe will be sunny and dry. Most of Scandinavia will be cool and changeable with temperatures ranging from 10C in the north to 20C in southern Sweden.

Five-day forecast

Western Europe will become cooler as depressions and frontal systems cross the region. The Alps, the Balkans and much of eastern Europe will be near a boundary between cool and hot air and several thunder storms can be expected. Greece and Italy will continue warm and sunny with isolated thunder storms in central areas. Southern Scandinavia will become cooler.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius																	
Abu Dhabi	sun	42	Beijing	fair	34	Caracas	fair	28	Edinburgh	shower	17	Madrid	sun	29	Rangoon	shower	29
Accra	shower	32	Belfast	shower	16	Cardiff	shower	17	Faro	fair	22	Majorca	fair	33	Reykjavik	shower	10
Algiers	fair	33	Belgrade	sun	32	Casablanca	fair	21	Frankfurt	thund	30	Malta	sun	31	Rio	cloudy	26
Amsterdam	shower	18	Berlin	shower	33	Chicago	fair	19	Geneva	shower	27	Manchester	shower	19	Rome	sun	29
Athens	sun	29	Bermuda	fair	26	Cologne	thund	23	Gibraltar	sun	28	Manila	cloudy	35	S. Frsco	fair	21
Atlanta	fair	31	Bogota	cloudy	18	Dakar	fair	26	Glasgow	shower	18	Melbourne	fair	22	Seoul	sun	29
B. Aires	sun	23	Bombay	fair	36	Dallas	thund	31	Hamburg	thund	25	Mexico City	fair	26	Singapore	cloudy	33
B.ham	shower	19	Brussels	shower	18	Delhi	fair	45	Helsinki	fair	20	Miami	fair	32	Stockholm	cloudy	21
Bangkok	cloudy	36	Budapest	sun	30	Djakarta	fair	32	Hong Kong	fair	29	Milan	sun	34	Strasbourg	shower	28
Barcelona	sun	26	C.hagen	shower	19	Dubai	sun	43	Honolulu	fair	28	Montreal	shower	12	Sydney	fair	16
			Cairo	sun	32	Dublin	shower	16	Istanbul	sun	24	Moscow	fair	18	Tangier	fair	19
			Cape Town	fair	21	Dubrovnik	sun	31	Jersey	shower	17	Munich	thund	35	Tel Aviv	sun	28
									Karachi	fair	36	Nairobi	fair	24	Tokyo	fair	27
									Kuwait	sun	48	Naples	sun	32	Toronto	fair	17
									L. Angeles	fair	22	Nassau	fair	30	Vancouver	cloudy	19
									Las Palmas	fair	24	New York	fair	15	Venice	sun	29
									Lima	fair	23	Nice	fair	26	Vienna	fair	33
									Lisbon	fair	22	Nicosia	sun	18	Warsaw	fair	26
									London	fair	21	Oslo	shower	22	Washington	sun	22
									Lux.bourg	thund	21	Paris	shower	19	Wellington	fair	10
									Lyon	shower	26	Perth	cloudy	17	Winnipeg	fair	22
									Madeira	fair	22	Prague	cloudy	35	Zurich	shower	29

FINANCIAL TIMES
COMPANIES & MARKETS
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IN BRIEF

Endesa issue price raises doubt

The issue price for the partial privatisation of Endesa, Spain's electricity utility, has fallen below expectations, raising doubts about future public equity offerings. "We've had really bad luck with the markets over the past three months and our subscription closed on a particularly criminal day for equities," said Endesa. Page 16

Polish bank to be privatised
One of Poland's largest banks is to be privatised this year through a stock exchange flotation of 50 per cent of the equity, the Finance Ministry announced. Page 16

Matra sells part of US arm
Matra, the military arm of France's Lagardère group, has agreed the partial sale of its US subsidiary, Fairchild Space and Defense Corporation, to Orbital Sciences Corp of the US. Page 17

A question for Philip Morris
Is Philip Morris, the US food and tobacco group, going to spin off its cigarette making operations? The stock market was left guessing after the unusual corporate turnabout that took place last week. Page 18

Anglo American ahead 23%
Anglo American, South Africa's largest corporation, reported a 23 per cent increase in total net earnings for the year. Page 19

US market debate heats up
The debate over the quality of US stock markets heated up last week when an academic study sharply criticised dealers on the Nasdaq market for maintaining unnecessarily wide spreads between buy and sell prices. Page 19

News Corp relies on Lords ruling
Lawyers acting for News Corp, the media, film and publishing group controlled by Mr Rupert Murdoch, are relying on a landmark ruling by the House of Lords to limit their client's liability in a potentially costly dispute stemming from the publication of an erroneous notice. Page 20

Kenyan crop replaces Rwandan pyrethrum
A record Kenyan crop of pyrethrum, a vital ingredient in many insect-control formulations, will more than compensate for losses arising from the cataclysm in Rwanda, formerly the world's third largest producer of this natural pesticide. Page 24

Wolseley buys US mail order skill
Wolseley, the UK heating and plumbing merchant, is expanding its photographic equipment distribution business with the acquisition of Calumet Holdings of the US. Chicago-based Calumet's expertise in mail order made it particularly attractive for Wolseley. Page 22

Warner-Wellcome starts up in Europe
The European operations of Warner-Wellcome, the consumer health joint venture between Wellcome of the UK and Warner-Lambert of the US, came into being two weeks after being given the go-ahead from the European Commission. Page 23

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)				PARIS (FFr)			
Rises				Rises			
[illegible]				[illegible]			
Falls				Falls			
[illegible]				[illegible]			
NEW YORK ($)				TOKYO (Yen)			
Rises				Rises			
[illegible]				[illegible]			
Falls				Falls			
[illegible]				[illegible]			
New York prices at 12.30pm.							
LONDON (Pence)							
Rises							
[illegible]				[illegible]			
Falls							
[illegible]				[illegible]			

■ US hotels group has 14% stake in Italian target and nears its ambition

ITT close to control of Ciga

By Michael Skapinker, Leisure Industries Correspondent

ITT Sheraton of the US is expected to seek effective control of Ciga, the luxury Italian hotel group, after acquiring a 14 per cent stake.

ITT confirmed yesterday that it acquired the stake during an auction of Ciga shares last month. The US group refused to comment on whether it planned to increase its stake further.

However, Italian regulations require a shareholder in ITT's position to make a public offering for a further stake equivalent to the one it already holds. This would bring ITT's holding up to 28 per cent.

Gaining control of the luxury chain would be a coup for ITT. Its ambitions to acquire the Italian group appeared to have been thwarted last April by a successful Ciga rights issue and a rise in its share price.

Acquiring Ciga now would be significantly more expensive for ITT than it originally envisaged. Its initial offering for Ciga, made last February, valued the group at L740bn ($465m), although observers believe the assumption of the group's liabilities and payment of bankers' fees would have brought the total to L900bn.

At current share price levels, a bid from ITT is likely to value Ciga at more than L1,200bn.

ITT emerged as a surprise buyer for Ciga earlier in the year when it edged out Forte of the UK, then the front runner. Following ITT's bid, Ciga launched the rights issue and share auction. At L1,000 a share, the rights issue was expected to fail. This would have delivered the hotel group to the group's creditor banks as underwriters and they would then sell it to ITT at L740 a share.

The rights issue was a success, however, as was the subsequent share auction. Ciga's shares have been trading consistently above L1,000.

Ciga said yesterday that the rights issue and auction had brought in L1,003bn. It said this would cover its short-term debt. The group owes L950bn to banks and a further L50bn to suppliers whose payments are overdue.

Italian observers said they did not believe Ciga could continue as a quoted company with a diverse group of shareholders.

Zurich Insurance goes for direct sell

By Richard Lapper in Zurich

Zurich Insurance, one of Europe's largest insurance companies, is to launch a telephone-based direct sales operation next month in preparation for the imminent deregulation of the European insurance market.

The new service, called Zuritel, will be launched in Switzerland and then extended.

Mr Rolf Hüppi, president and chief executive, expects competition to increase as a result of liberalisation, especially in motor, home and life insurance. "The opening of the market will mean an enormous pressure on business costs. This is one of the reasons why we are introducing low-cost distribution systems."

EU member states must implement new rules, the so-called framework directives, by July 1. These will abolish the system of minimum prices which still applies in some markets. Insurers will no longer need approval from local regulators for new policies or changes in policy wording.

One of Zurich's German subsidiaries, Deutsche Allgemeine, already sells some insurance direct to the public through a chain of 42 shops. But the market for so-called "personal lines" insurance in Germany, Switzerland and some other EU states is still dominated by networks of agents selling exclusively for one company.

Mr Hüppi believes this pattern is likely to change and predicts telephone-based direct writers will win a market share of up to 50 per cent of the private motor insurance market in some countries, citing recent developments in the UK, the US and the Netherlands.

Zuritel, to be based near Zurich airport, will reach its customers through a combination of mass media advertising and telephone sales, as do direct writers in the UK and elsewhere. Sales personnel will underwrite policies with the help of sophisticated computer software.

Winterthur, another large Swiss company, has been one of the pioneers of direct writing through its UK subsidiary Churchill. It has also recently launched a direct writer in the Danish insurance market.

Zurich also announced the launch of a new life insurance policy, again with an eye on European developments. It will invest premiums from the new policy in equities and real estate as well as in bonds.

Seagram seeks seat on Time Warner

By Bernard Simon in Montreal

Seagram, the international drinks company, has indicated that it wants a seat on Time Warner's board, but has no plans to raise its 14.9 per cent stake in the US entertainment and publishing group.

The issue of Seagram's representation on the Time Warner board has contributed to an awkward relationship between the two companies in the 16 months since Seagram began building up its stake.

Mr Edgar Bronfman Jr, who took over as Seagram's chief executive from his father yesterday, said that "we would prefer to be invited".

Although Mr Bronfman speaks to Time Warner chairman Mr Gerald Levin once a week and the two men have met regularly, Mr Bronfman said: "The request for a board seat will not come from Seagram". Time Warner has so far indicated a reluctance to invite Seagram on to its board, apparently fearing that the drinks company would use its position to acquire control.

Mr Edgar Bronfman Snr, who remains chairman, described the purchase of the stake in Time Warner as a calculated decision. "That was our decision and remains our decision," he said.

His son told the annual meeting that the main purpose of the $2bn investment was to generate funds to expand Seagram's core beverages businesses.

He compared the Time Warner investment with Seagram's forays into oil and gas and its existing 25 per cent stake in Du Pont, the US chemicals group.

Mr Bronfman Jr, aged 39, predicted that the value of Seagram's stake in Time Warner would rise "dramatically" over the next five to 10 years. "Patience will be our reward with Time Warner as it was with Du Pont," he said.

Seagram yesterday reported a 22 per cent rise in first quarter earnings to $197m, or 53 cents a share, in the three months to April 30, from $162m, or 43 cents a share, a year earlier. Operating income rose to $162m from $148m. The figure excludes a one time accounting charge of $75m, or 20 cents a share.

Sales rose 3.5 per cent to $1.2bn. North American Spirits and Wine income rose in the first quarter, in part reflecting the contribution of Absolut Vodka, for which Seagram bought marketing rights in January. A double digit improvement in earnings from Asia was offset by a sharp fall in the contribution from Latin America, especially in Brazil and Venezuela. Earnings were bolstered by a $16m gain from a disposal in Argentina.

Norma Cohen and Mark Suzman report on foreign investment in South Africa

Floodgates open to admit a steady trickle

When South Africa's soon-to-be president Mr Nelson Mandela issued his public plea last autumn for foreign investment in his country, it created a frisson within the global investment community. US institutional investors generally and pension funds in particular, barred for more than a decade from investing in South Africa, seemed poised to rise to the challenge.

So far, of the near 180 US cities, counties and states which had imposed bans on pension fund investment in South Africa, all but 35 have acted to lift them, according to the Washington-based Investor Responsibility Research Center. Meanwhile, several leading US money managers, including Morgan Stanley and Alliance Capital, have set up specialist funds for South African investment.

Wilshire Associates, the California-based pension scheme consultants, will lead a group of investment directors and money managers on a South African tour later this month. And just last week, two leading UK firms, Smith New Court and S.G. Warburg, announced ties with South African stockbroking firms to help them sell specialist services to US investors.

But for all the cheerleading, it is not clear how much money US institutions are prepared to invest in South Africa. Mr Paul Moses, who monitors South African investment for the IRRC, says those who count on a sudden inflow of funds are probably mistaken. "Institutions are thrilled that they are allowed to invest in South Africa again. But they feel no moral obligation to do so."

Most investors are likely to take the line of the Ford Foundation. Mr Clint Stevenson, investment director, says that while the fund is now allowed to invest in South Africa, it will be up to the external managers of its international portfolio to decide whether to do so. The TIAA-CREF pension scheme, with more than $125bn in assets, has similarly lifted its ban on South African investment but made no formal commitment to invest.

Investment bankers concede they may be gearing up for a boom which will never come. Mr Steve Oke, head of South African research and sales at Smith New Court, says that only when South African stocks and bonds look like a good buy will cash migrate there.

But investment experts point to two imminent developments likely to encourage foreign portfolio investment in South Africa.

First, two leading world stock indices – by Morgan Stanley and the International Finance Corp, the private sector arm of the World Bank – are to include a South Africa country weighting for the first time. "This means that passively managed funds which track indices will have to invest in South Africa," says Mr Oke. A spokeswoman for Morgan Stanley said it would probably be included in the emerging markets index, rather than its country index, "because of the political uncertainties".

With a market capitalisation of roughly $200bn, South Africa is the world's 10th largest stock market, according to Mr Ken Costa, managing director at S.G. Warburg. It could account for 15-20 per cent of the emerging markets index and, at that level, US fund managers would need to put up to $6bn into the country to maintain a neutral weighting.

Second, a credit rating for the country's debt and a debut on the world capital markets are likely this autumn. The government has retained Goldman Sachs to assist in gaining a rating.

Investment bankers expect South Africa to win the minimum investment grade rating of BBB. While the rating will mean more for fixed interest investors, an investment grade would provide some comfort to equity investors debating the political and economic risks.

But even investors happy with the country's future will find portfolio investment problematic. Years of economic isolation have led to structural shortcomings in the South African stock market.

"You can't buy anything," Mr Moses says. The top handful of companies own large stakes in each other, leaving little available for institutional investors. The cross-holdings were encouraged by local rules forbidding investment outside the country.

Data from the Johannesburg Stock Exchange show that total turnover in 1992 was 4 per cent, rising to 7 per cent in 1993. Since the early part of 1994, aided partly by "unbundling" by some conglomerates, turnover has risen to around 11 per cent.

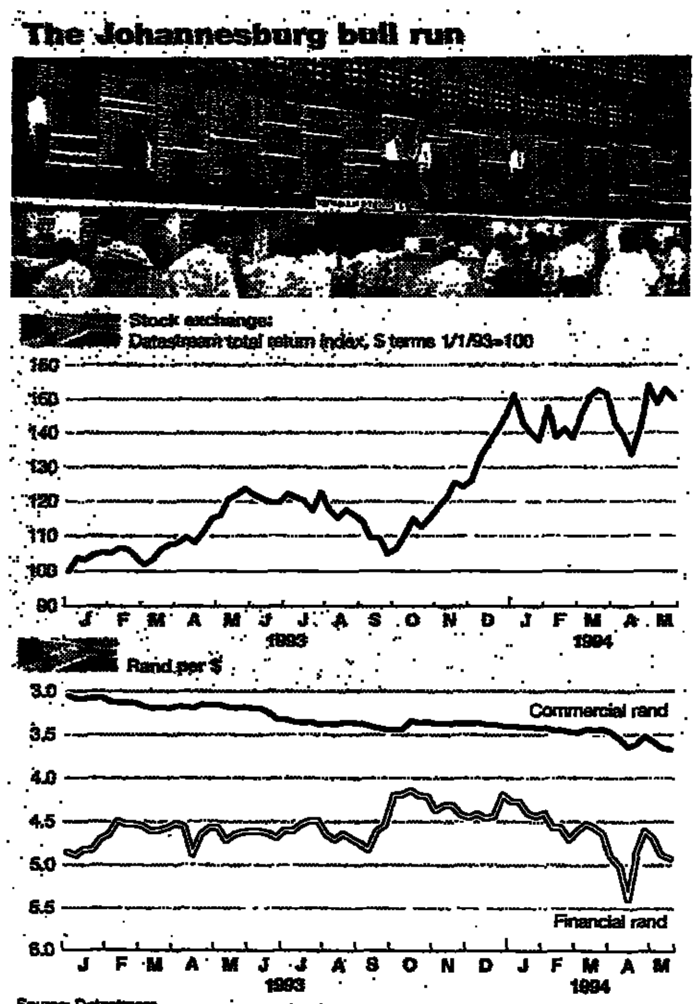
Although there are 638 companies listed on the JSE, buying shares below the 30 largest will be problematic, Mr Oke says. "It will be difficult for an institution to get a line in any of the medium-sized stocks."

Moreover, the pattern of cross-holdings raises questions about corporate governance and management accountability to shareholders. Mr Moses points out that while an institutional investor with a 5 per cent stake may have considerable influence over a US corporate board, "a 5 per cent stake in Johannesburg is nothing because there is somebody else who has 30 per cent".

The JSE has appointed a panel to examine corporate governance. Mr Michael Katz, a partner at the Johannesburg law firm of Edward, Nathan and Freedlund and chairman of the panel, says: "There are issues of corporate governance which arise from a stock market with such low turnover. The disinvestment remedy for shareholders unhappy with managements is limited in Johannesburg."

One remedy, he suggests, may be the abolition of exchange controls which force large domestic corporations to invest in each other. If Mr Mandela's government lifts these, as expected, liquidity in shares should improve. However, the government would have to be convinced that domestic corporations would not respond by instantly sending their cash abroad.

The Johannesburg bull run



Source: Datastream

US food distribution deal will create market leader

By Richard Tomkins in New York

Fleming, the second biggest wholesale food distributor in the US, is to buy Scrivener, the country's third biggest, from its German parent for $1.1bn in cash.

The purchase, announced yesterday, will turn the combined companies – coincidentally, close neighbours in Oklahoma City – into the biggest food distribution group in the US, pushing the Minneapolis-based Super Valu Stores into the number two slot.

Since 1977 Scrivener has been a subsidiary of Franz Haniel – a large, family-owned German conglomerate with interests in transport, trading and pharmaceuticals. Franz Haniel is understood to have agreed the sale to pay off debt incurred last year when it bought Office Commercial Pharmaceutique, a French pharmaceuticals company.

Fleming said its purchase of Scrivener would create a group with combined annual sales of $19bn. It would significantly strengthen Fleming's customer base in the Midwest and east, and take the group into seven new markets: Iowa, both Carolinas, Western Pennsylvania, New York, Illinois and Minnesota. The enlarged Fleming will serve more than 5,800 independent and chain supermarkets and more than 2,800 convenience stores in the US. In addition, Fleming will operate 315 of its own stores.

Of the $1.1bn purchase price, some $388m is for Scrivener's equity and most of the rest will be used to pay off Scrivener's loans. Fleming said Scrivener made operating profits of $106m last year. The deal, expected to be completed in the summer, will be financed through syndicated debt.

Fleming has been suffering from static or declining profits caused by weak retail food sales and a lack of food price inflation. Excluding extraordinary items, net profits fell from $118.9m to $99.3m last year on a 1.5 per cent increase in turnover to $13.1bn.

At the beginning of this year Mr Robert Strauth, who took over as chairman and chief executive last October, announced that Fleming was embarking on a radical reorganisation to cut the workforce by 2,000 employees, or about 9 per cent, and reduce operating costs by at least $65m a year.

Yesterday he indicated that a similar "re-engineering" process and could take some $20m out of Scrivener's operating costs.

GEC Alsthom buys rail operation from Preussag

By John Ridding in Paris

GEC Alsthom, the Anglo-French transport and engineering group yesterday said it had taken control of Linke-Hofmann-Busch, the German rail equipment manufacturer.

GEC Alsthom said it bought 51 per cent of the shares from Preussag for an undisclosed sum. The acquisition is the first by the joint venture in the railway sector in Germany and is aimed at strengthening its presence in European markets.

"It fills an important gap for us," the company said. GEC Alsthom has large operations in Germany in two other core divisions – power generation and power distribution. GEC Alsthom has sales of about DM1.2bn ($706m) in Germany and employs about 4,000.

LHB, which has annual sales of about DM450m and a workforce of 2,000, is based in Salzgitter, near Hanover. It is involved in the design and manufacture of trains, trams, electric and diesel locomotives, freight wagons, bogies and couplers.

LHB participates in the manufacture of the ICE, the high-speed train which has been developed and built by a consortium led by Siemens. The ICE is the principal European competitor for the Train à Grande Vitesse, built by GEC Alsthom.

GEC Althom said the deal would extend its European manufacturing presence. Under the terms of the deal, Preussag will retain 49 per cent of LHB's capital.

Polish bank to be sold this year

By Christopher Bobinski in Warsaw

Bank Przemyslowo Handlowy (BPH), one of Poland's largest banks, is to be privatised by the end of this year through a stock exchange flotation of 50 per cent of the equity, the finance ministry announced.

The sale of the Krakow-based bank will be followed next year by an invitation to foreign and domestic investors to take up a large share of the remaining equity in 1995. Three per cent of the bank's shares are to offered to management and employees.

The bank, which reported a 773bn zloty ($35.5m) net profit last year on a balance sheet worth 33,071bn zlotys, was originally to have been sold by the middle of this year to a strategic investor and through a public share offer.

However, this method was used for the sale earlier this year of Bank Slaski, the last state-owned bank to be privatised. It led to the resignation of Mr Marek Borowski, finance minister, and the ministry's top banking officials, and put a question mark over the BPH disposal.

Critics charged that Bank Slaski had been sold at an excessive discount.

Meanwhile, Mr Janusz Quandt, the BPH chairman who has in the past five years built a nationwide retail network and who sees the bank combining this with an investment banking role, has been urging for a capital increase for the bank through a sale of new shares to selected domestic investors. He has argued against having one strategic investor buy into the bank.

The finance ministry has chosen to auction half of the bank's equity through the bourse and then search for a strategic investor once a market price has been established for the BPH.

Prodi may stay on as interim Iri chairman

By Robert Graham in Rome

The resignation of Mr Romano Prodi as chairman of Iri, the Italian state holding company, has given the Berlusconi government a free hand to reshape and accelerate privatisation policy.

Mr Prodi resigned on Tuesday after the Iri board had approved 1993 results which showed losses had more than doubled to L10,230bn ($6.4bn). Yesterday the four other members of the board announced their resignations.

The government has yet to accept the resignations. Mr Prodi indicated yesterday he would not change his mind. Iri has debts of L75,000bn, almost 5 per cent of GDP.

"I returned to Iri to deal with its finances and impose a restructuring plan with a view to privatisation. Now it is the time, after the presentation of the annual accounts, to hand over matters to the new government," Mr Prodi said yesterday.

Mr Silvio Berlusconi, the prime minister, commenting on the resignation yesterday said: "This is a problem which we still have to work on."

This suggests that Mr Prodi will stay on in an interim capacity until the June 30 shareholders meeting before formally stepping down. This would enable him to approve the privatisation of Ilva's special steel operations.

Iri became a public company with the treasury as the single shareholder in August 1992. At present the government appears inclined to appoint a new chairman whose basic task will be to act as a kind of "liquidator". The chairman would sell off or re-distribute all worthwhile assets while the remainder would be gradually liquidated.

The procedure could be similar to that applied to Efim, the industrial holding company placed in liquidation in July 1992. However, government officials insist if such a procedure were adopted, they would seek to avoid the mistakes of Efim – in particular antagonising foreign creditors.

Endesa price fall clouds offerings

By Tom Burns in Madrid

The issue price for the partial privatisation of Endesa, the state electricity utility, has fallen below expectations, raising doubts about future public equity offerings.

The offering in Endesa, which reduced the state holding by 9 per cent to 65 per cent, realised only Pta144bn ($1.06bn). This compared with Pta200bn that had been anticipated when the disposal was planned in February.

"We've had really bad luck with the markets over the past three months and our subscription closed on a particularly criminal day for equities," said Endesa.

The offer was priced at Pta6,450 per share, a price that was set by Endesa's closing price in New York on Tuesday and which was down on its earlier Tuesday Madrid close of Pta6,550.

Yesterday, as the Spanish stock exchange continued to fall, the utility's share price dropped further to Pta6,400 in Madrid as a heavy volume of about 2m Endesa shares were traded.

The price falls came as a shock. In the past, equity offerings by Spanish public companies – including Endesa, which first tapped the international markets in 1989 – had been unqualified successes.

The only comfort for Endesa was that the offering, which was co-ordinated by Goldman Sachs, had performed somewhat better in its domestic retail tranche, where the offer was 3.25 times subscribed with 200,000 applications for an average of 100 shares each.

The utility had purposely weighted the offering towards Spanish investors, and the demand from domestic retailers meant that it was able to exercise its clawback option and reduce shares offered to institutions by 18 per cent.

Analysts in Madrid said yesterday that the ill-fortune surrounding Endesa's equity offer was bound to influence other public disposals that are in the pipeline.

These include an equity offering by Repsol, the oil, gas and chemicals group, which is tentatively planned for the end of the year, and possibly one by Argentaria, the state banking corporation.

"It's quite clear that partial privatisations are no longer a well spring on which the government can rely," said Mr Juan Bastos, chief executive of brokers Ibersecurities.

Deutsche Telekom takes £50m Astra stake

By Raymond Snoddy

Deutsche Bundespost Telekom, the German state-owned telecommunications and post office group, has bought a large stake in Astra, the satellite television company, in a deal believed to be worth £50m ($75.2m).

The German company has bought 25 per cent of the privately-held share capital of Societe Européenne des Satellites, the Astra holding company.

Two-thirds of SES is held by private European investors including Thames Television, which along with the Financial Times is a subsidiary of Pearson, the media and entertainment group.

The other third of SES is owned by Luxembourg state-owned financial institutions.

Although it is most unlikely that SES will be sold – the Luxembourg government will want to keep its stake and its control – the deal would give a notional value for SES of more than £500m. SES declined to reveal the purchase price of the Telekom stake.

The deal suggests that Thames Television's 10 per cent stake in SES could be worth more than £50m. Pearson paid £100m for Thames, and in addition to the SES stake, the deal included the company's continuing programme supply business with Independent Television, its Teddington studios, programme library and stakes in satellite channels.

SES has three Astra satellites broadcasting 50 television channels to cable television networks and satellite dishes across western Europe. A fourth satellite capable of broadcasting a further 16 channels is due to be launched in September.

SES revenues in 1993 increased 23 per cent over 1992 to £128m. Profits rose 19 per cent to £55m.

Deutsche Bundespost Telekom, preparing for privatisation in 1996, lifted profits before taxes, write-offs and government transfers to DM7.6bn ($4.5m) last year, up from DM7bn, writes David Waller in Frankfurt.

After special write-offs of DM3.2bn and taxes and transfers to the state of DM6bn, the group reported a net loss of DM2.9bn, Telekom said yesterday. Group sales rose by 9.3 per cent, to DM59bn from DM54bn, reflecting a surge in business in eastern German states where turnover rose to DM4.5bn from DM3.5bn.

The law for privatisation is expected to come into force in 1995, providing for the transformation of Telekom into three operating companies. It will be Germany's biggest privatisation to date.

The first tranche in the telecommunications arm will be offered in mid-1996 with a market value of DM10bn-DM15bn. The market capitalisation of the group as a whole is set to be about DM60bn.

Kingfisher sales slow

By Neil Buckley

Shares in Kingfisher the UK retailing group fell a further 21p to 522p yesterday, after it said sales growth in the first quarter of this year had been slower than in 1993.

Kingfisher's shares have fallen from 778p at the end of December, amid City nervousness about Kingfisher's strategy under the chairmanship of Sir Geoffrey Mulcahy.

Sir Geoffrey's comments to the annual meeting yesterday did little to allay those fears. He said sales in two of Kingfisher's businesses had fallen, although gross margins were generally improving.

Granada Group eyes TV takeover target

By Raymond Snoddy

Granada Group, the UK television group, has identified Yorkshire-Tyne Tees as its next target if, as seems likely, the government decides on a further liberalisation of the rules on television ownership.

Mr Gerry Robinson, chief executive of the broadcasting, leisure, rental and business services group, yesterday identified Yorkshire as a possible acquisition target.

The group also announced a 51 per cent increase in pre-tax profits to £103m ($155m).

A takeover of Yorkshire would create a greater northern television empire, plus London Weekend Television – acquired for about £760m early this year.

The government is looking into the issue of cross-media ownership and plans to report later this year.

Mr Alex Bernstein, Granada chairman, said yesterday the group's principal businesses had improved profits in the 26 weeks to April 2, with £11.3m of the growth in profit before interest coming from organic growth. A total of £27.1m came from acquisitions, mainly from Sutcliffe Catering and Spring Grove Services.

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Finnish lift maker in further big disposal

By Christopher Brown-Humes in Stockholm

Finland's Kone yesterday extended its concentration on its core elevator operations by announcing the sale of Kone Wood, a supplier of wood handling equipment, to Andritz AG of Austria.

The sale, on undisclosed terms, is Kone's third big disposal in the last nine months. Last September it sold MacGregor-Navire, the world's leading supplier of shipboard cargo handling equipment, to Sweden's Incentive for about SKr500m ($63.3m) and in March it sold its cranes unit for more than FM600m ($110m).

Kone's majority owner, the Herlin family, recently rejected an offer from Germany's Thyssen group for its entire shareholding. It controls about 40 per cent of Kone's capital and 70 per cent of the votes.

Kone, one of the world's three leading elevator manufacturers, says its remaining non-core activities, Kone Instruments, GS-Hydro and a steel foundry are also for sale.

Loss at Postipankki widens to FM163m

By Christopher Brown-Humes

Pre-tax losses at Postipankki, the Finnish state-owned banking group, rose to FM163m ($29.6m) from FM101m in the first four months as higher costs and reduced income offset a reduction in credit losses.

Mr Seppo Lindblom, chief executive, said the bank would make another loss in 1994, after last year's FM353m deficit.

Rising long-term interest rates and reduced foreign exchange income helped lower group income to FM1.20bn from FM1.28bn. The fall would have been greater but for last year's purchase of Savings Bank of Finland assets, although costs associated with the acquisition helped drive expenses up 30 per cent to FM934m. Credit losses fell to FM369m from FM599m.

Last week Unitas, Finland's second largest banking group, said it had cut pre-tax losses by 18 per cent to FM444m in the first four months, in spite of a 15 per cent increase in credit write-offs to FM976m.

Matra agrees part-sale of US unit

By David Buchan in Paris

Matra, the military arm of France's Lagardère group, has agreed the partial sale of its US subsidiary, Fairchild Space and Defense Corporation, to Orbital Sciences Corp of the US in a $105m deal.

Matra is to be paid in cash and shares, giving it a stake of more than 15 per cent in Orbital. The French company will still own Fairchild's buildings, worth $39m, which it will lease to Orbital.

Matra bought Fairchild in 1989. It said yesterday the deal was prompted by the "almost unavoidable necessity" of mergers because of the cuts in US military and space spending.

Orbital is a fast-growing space company, with a turnover of $190m last year. Its technology includes Orbcomm mini-telecom satellites, the Pegasus system of launching the mini-satellites from aircraft, and techniques in map-making from pictures taken from space.

Fairchild had a large amount of government business, including work on the US Air Force's F-22 advanced tactical fighter.

Matra said its interest in the deal was primarily product-related. It wanted to associate its own French-based space business and that of Fairchild with Orbital.

Orbital Sciences, based in Fairfax, Virginia, earned $4.6m last year, up from earnings of $3.8m on revenues of $174.6m in 1993.

The company has successfully launched 16 space missions, including the Pegasus rocket and suborbital launch vehicles.

Mr David Thompson, chief executive of Orbital, said earlier this year the company had been exploring ways to apply its space launch and satellite systems technologies to higher-growth commercial markets.

Separately, Matra has been negotiating for many months with British Aerospace to buy the BAe's space business. It wants to merge the two companies' missile activities in a joint venture.

Kmart loses backing of investor for stake sales

By Richard Tomkins in New York

Wall Street's biggest institutional investor is joining a rebellion against plans by Kmart, the troubled US discount store group, to sell stakes of up to 30 per cent in its four specialty retailing subsidiaries.

The influential College Retirement Equities Fund (CREF), which holds 1.1bn of Kmart's 455.9bn issued shares, said it wanted Kmart to sell the subsidiaries completely, so that management could concentrate on improving the core discount store business.

It also said it would withhold support for all five of Kmart's 13 directors seeking re-election this year, citing the company's "significant long-term decline in market share, profitability, operating earnings and share price".

With only a day to go before the company's annual meeting on Friday, the CREF is the biggest of five investors to have spoken out against Kmart's strategy.

The others are the State of Wisconsin Investment Board, one of the 10 largest US pension funds; the Florida State Board of Administration; the Ohio State Teachers Retirement System; and the Amalgamated Clothing and Textile Workers Union.

Between them, these investors control only a small percentage of Kmart's shares. However, they are hoping their public opposition to Kmart's plans will swing other shareholders against the company.

Kmart, which has been struggling to compete with its more successful rival, Wal-Mart, ended five years of stagnant earnings by plummeting into net losses of $947m last year. Plans for recovery include the creation of new shares in its specialty retailing subsidiaries and the sale of up to 30 per cent of the shares in the marketplace.

Czech brewer seeks to raise up to Kc3bn

By Vincent Boland in Prague

Prazske Pivovary, the fourth-largest Czech brewer, is to raise up to Kc3bn ($107m) to fund a five-year modernisation of its three brewing divisions and expand overseas sales of its leading brand.

Mr Alfie Vaughan, a director of Prazske Pivovary, said that the aim was to improve efficiency and modernise brewing methods.

Prazske Pivovary, in which Bass of the UK has a 34 per cent stake, expects to tap the Czech capital markets for the funds. However, the technical problems of raising long-term capital in the Czech Republic will have to be overcome. "Our debt profile is very short-term, which must change," Mr Vaughan said.

The main beneficiary of new investment will be the company's Smichov brewery, which makes Staropramen, its leading brand with an estimated 10 per cent of the Czech market.

Staropramen is to be marketed abroad as a premium lager. It will be launched in some UK pubs owned by Bass from October, backed up by "a very substantial marketing budget", Mr Vaughan said.

Bass paid £9m ($13.6m) for its stake in Prazske Pivovary late last year.

Compaq reduces prices in campaign to topple rivals

By Louise Kehoe in San Francisco

Compaq Computer has sharply reduced the prices of several of its personal computer products in a bid to expand market share. The Texas-based company has set its sights on overtaking IBM and Apple Computer to become the PC market-leader by 1996.

The price reductions range from 4 to 29 per cent, with the deepest cuts applying to its sub-notebook PC, the Contura Aero, which will sell in the US at $999 for the basic model.

Compaq also lowered prices on its multimedia Presario models, which incorporate a CD-ROM player, by about 13 per cent. Prices will now start at $1,299. High-performance Pentium-based desktop PCs and servers were reduced by up to 18 per cent.

With its latest price cuts, Compaq is moving aggressively to undercut its largest competitors. "With this move we [will] set the pace for value leadership in the PC industry," said Mr Ross Cooley, senior vice-president.

Compaq's US shipments outstripped those of IBM and Apple in the US market for the first time during the first quarter of this year, according to Dataquest, the US market research group.

"Compaq took advantage of Apple's PowerPC transition and IBM's traditionally slow first quarter to jump out to an early US PC shipment lead – but we expect it to be a close three-way race by year-end," said Mr Philippe de Marcillac, director of Dataquest's PC group.

Compaq captured the first-quarter lead by shipping nearly 55 per cent more PCs in the US than in the same period last year, he said.

The US PC market as a whole showed strong growth, with shipments up by more than 17 per cent over the first quarter of 1993. The top 10 PC manufacturers accounted for all of the growth, with sales by smaller PC makers declining, according to Dataquest.

Norway warned on banking

By Karen Fossli in Oslo

The Norwegian government's continued control of commercial banks risked distorting competition in the sector, Mr Finn Hvistendahl, Norwegian Bankers Association chairman, yesterday warned.

Mr Hvistendahl, who is also president of Den norske Bank, Norway's biggest commercial bank, said the government should make it an objective to re-privatise state-owned commercial banks.

"The government stake in the major Norwegian commercial banks will inevitably affect competition in the [domestic] banking industry," he told the association's annual meeting in Bergen.

Norway's banks last year returned to profit for the first time in several years, after emerging from the country's worst banking crisis since the second world war.

The crisis forced the government to undertake a far-reaching rescue operation, in which it became the single biggest owner of the capital of the top three commercial banks. DnB received more than NKr7bn ($981m) in state cash, while Christiania Bank, the second biggest bank, received a NKr9bn injection.

The Labour government has repeatedly stressed its intention to maintain a minimum 50 per cent shareholding in DnB and Christiania Bank, at least for now.

Last year, the state boosted its stake in DnB, to 87.5 per cent from 69 per cent, by converting NKr3.5bn in preference capital in the bank to 350m new shares.

The state reduced its stake in Christiania to 68.9 per cent from 98.8 per cent last December. It remains the sole owner of Fokus Bank.

In March, the Organisation for Economic Co-operation and Development warned against continued dominant government involvement in the banking industry.

US copper producer sells gold interest

Phelps Dodge, the US copper producer, has sold its 72.25 per cent interest in the Seven-Up Pete joint venture gold project in Lincoln, Montana, for $150m, Reuter reports from Phoenix, Arizona.

It said it agreed to sell the stake to a unit of Echo Bay Mines and a unit of Canyon Resources.

Echo Bay said separately it was acquiring from Phelps a 55 per cent interest in the gold project for $114m.

It said Canyon Resources, which owns a 27.75 per cent interest in the venture, would increase this to 45 per cent.

Indian industrial group plans issue

By Peter John

Grasim Industries, one of India's leading industrial companies, plans a $100m issue of global depositary shares (GDS).

It is the first Indian company to receive government approval to tap the international capital markets since the failed $1bn euro-equity offering by VSNL, the state-controlled telecommunications group, a month ago.

Part of an industrial group run by Mr Aditya Birla, Grasim is the largest manufacturer of viscose fibre in India, and a big cement and steel producer.

The shares, which will be priced next week, will be fungible with an existing $90m GDS issue. The money will go towards the company's $387m capital expenditure programme over the next three years.

The company is building a cement works and a power plant, as well as expanding textile production.

Mr Birla said: "This is important for me and for the country. Grasim was the first company to come successfully to the international market in 1992, and the first after the VSNL failure. A lot of people will be watching us very carefully."

The postponement of VSNL's offering was the country's biggest setback in the international capital markets since Indian issuers first borrowed funds in late 1992, when the government's liberalisation programme permitted increased foreign trade and investment.

Bombardier advances 33.7% in first quarter

By Robert Gibbens in Montreal

Bombardier, the Canadian aerospace and transport equipment group reported a sharp rise in profits and sales for the first quarter. Rising deliveries of its 50-passenger regional jet and strong demand for snowmobiles and watercraft resulted in a 33.7 per cent gain in first-quarter net profit while sales advanced 27 per cent.

Bombardier earned C$52.4m (US$37.9m), or 31 cents a share, against C$39.2m or 25 cents a year earlier, on sales of C$1.17bn, against C$993m.

INTERNATIONAL COMPANIES AND FINANCE

Philip Morris keeps the markets guessing

Food and tobacco group has made an about-turn over a spin-off, writes Richard Tomkins

Is Philip Morris, the US food and tobacco group, going to spin off its cigarette making operations? The stock market was left guessing after the unusual corporate turnabout that took place last week.

Last week Philip Morris put out a terse statement after a six-and-a-half-hour board meeting saying it had decided to take no action on the possibility of separating the company's food and tobacco businesses.

But how were shareholders to reconcile this with an announcement just six weeks earlier saying that a spin-off of the tobacco operations was being considered?

In mid-April, Mr Hans Storr, the company's chief financial officer, said that Philip Morris was looking at the possibility of a spin-off as one option for increasing shareholder value.

The move appeared to make sense. Philip Morris – like RJR Nabisco, the next biggest US food and tobacco group – had long believed its share price was unduly depressed because of adverse sentiment about cigarette manufacturing.

The downward pressure increased last year when Philip Morris started a bruising price war to win back market share from low-cost brands. More recently, US cigarette makers have faced an unprecedented wave of attacks from the anti-smoking lobby, government officials and Congress.

Meanwhile investors fear that, one day, someone will win a multi-million dollar lawsuit against US cigarette makers requiring them to pay compensation for suffering caused by smoking-related diseases.

So far, the cigarette makers have successfully defended themselves against every action, but one success could open the floodgates.

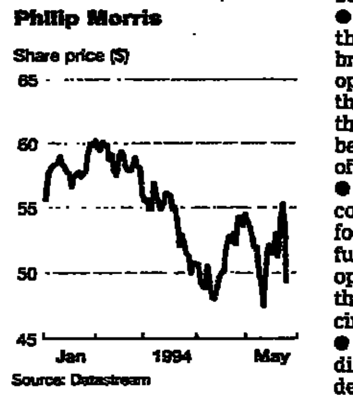
When the Financial Times reported Mr Storr's remarks, the company was flooded with requests from stock market analysts and the media for confirmation of a possible split.

Philip Morris duly obliged, saying it was "currently studying such a separation". And during the next two weeks, as analysts sent out "buy" recommendations to their clients, the stock price rose by more than 10 per cent.

On April 25, Philip Morris said it was continuing to study a possible demerger, so when the board met last Wednesday, expectations for an announcement were running high. Instead, the company said the board had rejected a split – and the next day further dashed hopes by saying: "It is not anticipated that this issue will be before the board in the foreseeable future."

Philip Morris

Share price ($)



Source: Datastream

Philip Morris declined last week to elaborate on its brief announcements, so analysts were left to speculate on the reasons for the turnabout. Some believed the plan was a dead duck; others thought it needed more work.

But Philip Morris had always emphasised that a spin-off was only one of the options for enhancing shareholder value, and could involve problems. Among the difficulties that could have confronted the board were:

- ● A reluctance to overturn the logic that originally brought the tobacco and food operations together – that is, the idea that the cashflow from the tobacco operations should be used to fund the expansion of the food operations.
- ● Uncertainty that a split could protect the demerged food operations from a successful lawsuit against the tobacco operations if the courts saw the demerger as an attempt to circumvent liability.
- ● The possibility that a free distribution of shares in a demerged tobacco business would give shareholders an unwelcome tax liability.
- ● Fears of an adverse political reaction from the anti-smoking lobby in Washington to a move that could be seen as conferring benefits on the country's biggest cigarette maker.

On the other hand, experience from other recent US demergers suggests that most of these problems could have been overcome.

So analysts like Ms Becky Barfield of CS First Boston, the Wall Street investment bank, wonder if there is a simpler explanation for what happened.

Clearly, the management favoured a demerger – because it would not have published statements saying it was being considered; equally clearly, the board was against the plan – because it turned it down. "It sounds to me like there was a fight," Ms Barfield says.

Whatever the explanation, the debacle has done Philip Morris – and its languishing share price – little credit. But where does it go from here?

One likely option is to boost earnings per share by accelerating the current stock repurchase programme.

Another possibility would be to increase the proportion of earnings paid out in dividends.

On the other hand, one positive outcome of last week's meeting was the elevation to the board of Mr Geoffrey Bible, head of Philip Morris's world-wide tobacco operations. Some analysts thought that could be a first, tentative step towards a future demerger – once the board felt it could decently come back to the plan without losing face.

Ireland set to overhaul trading in gilts

By Tim Coone in Dublin

Ireland's National Treasury Management Agency (NTMA) plans an overhaul of government bond trading which would replace the order-driven system with market-making.

NTMA says the shift to a market-making system would improve liquidity, reduce the cost of borrowing to the Irish exchequer and improve the market for financial derivatives.

The changes are expected to increase annual turnover of the I£14.5bn ($21.5bn) stock of gilts from three to six times.

The proposals would create a new tier of primary dealers, which would be separately incorporated from existing brokers. They would have capital resources of at least I£4m each, and quote firm two-way prices in nine designated benchmark stocks.

Deals would be in minimum units of I£2m for shorter maturities up to five years, and in minimum units of I£1m for longer maturing stocks. Maximum spreads would be between 0.1 and 0.3 per cent, depending on stock maturity.

NTMA says it would give exclusive access to market makers to tap sales, would provide them with stock-switching arrangements, would facilitate the development of stock lending and repurchase arrangements, and would be prepared to intervene in secondary markets "in times of major financial turbulence".

The average gross issuance of new government bonds is around I£2bn per year, of which I£1.7bn is in respect of refinancing maturing debt.

Negara sells MAS stake

Bank Negara, Malaysia's central bank, has sold its shareholding in Malaysia Airlines (MAS), the national carrier with the exception of one "golden share", writes Kieren Cooke from Kuala Lumpur.

It sold 11.5 per cent of MAS to the state run Pensions Trust Fund at the beginning of this year.

Japan bucks trend in government bond markets

By Conner Middelmann

For the fourth consecutive month, most government bond markets fell in May, according to J.P. Morgan's government bond index.

Japan was the only exception, topping the local currency performance charts for the second straight month with a return of 1.2 per cent. Japanese bonds have been supported by the country's sluggish economy, low interest rates and receding inflation.

European government bonds were worst hit, falling 1.75 per cent on the month, bringing the year-to-date performance to minus 5.22 per cent, compared with minus 3.5 per cent in the year to date for the US bond market and minus 4.08 per cent on the global index.

European falls were caused by concern that monetary easing may be coming to an end. Germany was Europe's top performer, with a loss of 0.66 per cent in May in spite of the half-point cut in the Bundesbank's discount rate to 4½ per cent.

In spite of a spate of corruption scandals which caused the 10-year yield to vault to 9.8 per cent, Spain was the second-strongest European market, losing 0.71 per cent in May.

Europe's worst performer was the UK market, which lost 3.78 per cent on inflation expectations, bringing the year-to-date loss to 11.29 per cent.

US bonds only shed 0.06 per cent in May, but the market remains nervous. "With jobs growth replacing interest rates as the force behind increased spending in the US economy, investors are becoming increasingly concerned with the Fed's ability to contain the risk of upward price pressures," the report states.

Net earnings at Anglo American rise 23%

By Mark Suzman in Johannesburg

Anglo American, South Africa's largest corporation, yesterday reported a 23 per cent increase in net earnings for the year ending in March to R2.98bn ($543m), up from R2.42bn a year ago.

Net income after tax rose 19 per cent to R2.24bn from R1.83bn, while attributable earnings rose to R1.68bn from R1.40bn, a gain of 20 per cent. A final dividend of 300 cents was declared, bringing the total for the year to 395 cents, up from 345 cents last year and above market expectations of around 370 cents.

The company's net asset value after the dividend recorded a substantial 55 per cent jump to R54.98bn, reflecting the continued buoyancy of the Johannesburg stock exchange.

The results have been modified in accordance with the international moves towards greater accounting comparability and provide for stricter treatment of extraordinary items, but the effect on earnings figures has not been material, resulting in a 3 per cent increase in 1994's net earnings and a 2 per cent decline in 1993's restated figures.

Of the group's divisions, mining finance remained the most profitable, accounting for R754m of total net earnings, up from R617m last year, while gold rose to R400m from R277m on the back of the higher gold price.

Industry and commerce recorded a 17.7 per cent increase to R529m from R381m, while diamonds rose to R642m from R463m, but platinum and other mining declined slightly to R127m from R155m. Coal's contribution also dipped to R134m from R240m, although this was largely a reflection of the disappearance of last year's R114m tax rebate from the figures.

Mr Julian Ogilvie Thompson, chairman, said he was confident the earnings improvement would carry through to the current year as a result of the continued improvement in both the South African economy and the international trading environment. He also expressed confidence in the country's new government, praising both its "welcome commitment to reconciliation" and President Nelson Mandela's "commitment to prudent economic policies".

However, he refused to be drawn on a time frame for the corporation's planned unbundling of its interests in rival mining house Johannesburg Consolidated Investments and the anticipated sale of some of that company's largest divisions to black shareholders.

See Lex

Anglo American : Net earnings by sector (Rand m)

Sector	1994	% of total	1993	% of total
Mining finance	754	25.3	617	25.5
Gold & uranium	400	13.4	277	11.5
Diamonds	642	21.5	463	19.2
Coal	134	4.5	240	9.9
Platinum & other mining	127	4.3	155	6.4
Industry & commerce	529	17.7	381	15.8
Financial services & property	288	9.6	238	9.8
Investment surpluses & other net income	110	3.7	47	1.9

Source : Company report

Academics take issue with Nasdaq spreads

A study which sharply criticised dealers on the screen-based Nasdaq market has reopened the issue of the quality of US stock markets, writes Patrick Harverson

The long-simmering debate over the quality of US stock markets heated up last week when an academic study sharply criticised dealers on the Nasdaq market for maintaining unnecessarily wide spreads between buy and sell prices.

Wide spreads are bad for investors, because they are denied the opportunity to pay a little less when buying a stock, or receive a little more when selling. Dealer firms like wide spreads, because they translate into bigger profits – the wider the spread, the more money the dealer can make on the difference between the price he pays and the price at which he sells.

The study – conducted by two college finance professors, William Christie of Vanderbilt University and Paul Schultz of Ohio State University – found that for 71 of the 100 most actively traded Nasdaq stocks of 1991, dealers rarely, if ever, listed stock quotes ending in an odd-eighth of a dollar when posting bid (buy) and offer (sell) prices on their computer screens.

Instead of using the full range of eighths, such as $⅛, $⅜, $⅝ and $⅞, the study found that dealers almost always quoted spreads of even-eighths, such as $¼, $½, $¾ or a whole dollar. In contrast, spreads quoted on the New York Stock Exchange (NYSE) and the American Stock Exchange (ASE) were found to be consistently narrower than those on the Nasdaq, with the exchanges' "specialists", or dealers, regularly using odd-eighths as well as even-eighths when quoting prices.

Nasdaq, the large screen-based dealer market, run by the National Association of Securities Dealers (NASD) is the second-largest forum for trading equities in the US after the NYSE, and its system of competing dealers posting buy and sell prices on computer screens has been duplicated by exchanges around the world, including London.

The study has attracted attention because the authors not only criticised the wide spreads posted by Nasdaq dealers, but also argued that the extremely rare use of odd-eighth quotes suggested dealers may be working in concert to keep spreads wide.

"Despite extensive research, there is little explanation as to why as many as 50 dealers, all in competition, would neglect one-half of all possible price options if not for implicit collusion," said Mr Christie and Mr Schultz.

The study was immediately seen as providing support for the long-held view of floor-based exchanges that their system of allowing the flow of orders to set prices – with specialists ready to step in and participate in a trade only when necessary – provides investors with a better service than Nasdaq's system of letting dealers set prices to attract orders. Although the NYSE declined to comment, sources at the exchange said privately that the findings proved the Nasdaq system did not encourage competition.

The NASD quickly attacked the study's findings, arguing that there was no evidence of collusion between dealers. While he did not dispute the study's facts on spread sizes, Mr Richard Ketchum, vice-president, said the wide spreads were a reflection of one of Nasdaq's strengths, "a great deal of liquidity at a single price".

This has always been the main argument put forward for the Nasdaq system: that what investors lose from wider spreads, they more than get back from the guarantee of liquidity afforded by the multiple dealer system.

By allowing dealers to maintain, and profit from, spreads of a quarter of a dollar, the NASD says it is ensuring that there will always be enough dealers in the market.

It argues that tighter spreads would, by cutting into dealers' profits, deter dealers from making a market in many stocks and reduce liquidity.

While this argument makes sense when discussing the liquidity of small, lightly-traded stocks, it carries less weight when it comes to the biggest stocks on the Nasdaq system, like Apple Computer, Intel and Lotus Development. Even with these three giants, which in theory should attract a multiplicity of dealers eager to compete for business, the Christie-Schultz study found that spreads were almost never quoted in odd-eighths.

The study on Nasdaq spreads, however, does raise the wider issue of the quality of US stock markets, and whether they provide investors with the best possible service. Mr Junius Peake, professor of finance at the University of Northern Colorado and a long-time observer of US stock market practices, says dealers are able to keep spreads wide to maximise their profits because the systems are designed that way.

"As long as the trading systems are built by entities controlled by market-makers, such as the NASD and the exchanges, they will be built to serve those interests first. Only when we have independent commercial operators trying to serve the best interests of the end-user, the investor, will the system be designed to best serve investors."

Systems which do not rely on intermediaries to bring buyers and sellers together do exist. The majority of trades on the NYSE and ASE, for example, are completed without a specialist becoming involved. Yet the specialist, through his monopoly on the trading of each stock, still exerts considerable control over pricing in the market, and the exchanges, like Nasdaq, are controlled by their communities of dealers and brokers.

There are a handful of trading systems and markets run by independent entities – including Instinet (run by Reuters), Posit (run by Jefferies & Co), and the Arizona Stock Exchange – which allow investors to deal exclusively with each other, but they account for only a fraction of all trading on US stock markets.

They are growing as more investors find they prefer non-dealer systems in certain circumstances, but the lack of liquidity restricts their usefulness to investors, particularly individuals.

Ethane deal prompts ICI Australia to plan pipeline

By Nikki Tait in Sydney

ICI Australia, a subsidiary of the UK-based group but traded separately on the Australian stock exchange, looks set to go ahead with a A$250m to A$300m (US$184m-US$221m), ethane pipeline connecting the South Australia gasfields to its Botany Bay petrochemical plant.

The company has reached an outline ethane supply agreement with Santos, the Adelaide-based oil and gas group, for 10 years. The volume of ethane concentrate would be around 310,000 tonnes a year and, according to Santos, "based on the current structure of prices in the oil futures market, the price formula agreed is economically equivalent to the current natural gas price with CPI indexation".

The deal also includes a possible extension for a further five years, on terms to be negotiated at that stage. The two companies aim to sign a formal contract within two months, and ICI hopes to set up similar arrangements with other producers in the Cooper Basin.

ICI Australia said yesterday that it hoped to construct the 1300km pipeline between Moomba and Botany, which would come into operation in May 1996. The cost of the pipeline is put at more than A$200m, and modifications to the Botany plant will take total project costs to more than A$250m.

The new pipeline will follow a similar route to the existing Moomba-Sydney pipeline, which is being sold by the federal government to AGL, the Australian utility, Canada's Nova and Petronas, the state-owned Malaysian oil company.

● Commonwealth Bank of Australia has sold its 50 per cent shareholding in stockbroking firm Burdett Buckeridge & Young for an undisclosed sum, Reuter reports from Sydney. The purchasers were US institutional stockbroking firm Jefferies Group and Hong Kong-based joint venture investment bank Asian Capital Partners.

Investors stay on sidelines despite higher yields

By Conner Middelmann in London and Frank McGurty in New York

European government bonds took another tumble on continued futures and cash selling, and although long yields have risen sharply in recent days, they failed to lure investors back into the market.

"It is increasingly unclear what is pushing the markets down," said Mr Peter Kerger, head of futures and options at NatWest Markets in Frankfurt, but after the recent heavy losses, "there is a lot of fear, and a self-feeding downward momentum in the market."

In addition to technical selling in the futures pits, traders reported significant sales of cash bonds by institutions opting to end the pain of watching their long-term positions go deeper into the red.

"People who have held on and on since February are fed up and have begun offloading loss-making positions," said one dealer.

Higher than expected German production data and the release of a strong US National Association of Purchasing Management index also pressured prices.

■ German bunds opened slightly higher on early short-covering after Tuesday's sell-off. The Bundesbank lowered its securities repurchase rate by five basis points to 5.15 per cent but that failed to give prices a lift, especially after earlier rumours of a larger cut. Stronger-than-expected industrial production further pressured prices, fanning fears that economic recovery might fuel inflation pressures.

Contradictory comments from Bundesbank council members added to the market's confused state. While Mr Gunter Palm, president of the state central bank of Baden-Württemberg, said that recent cuts in the discount and Lombard rates mark at least a stopping point and "maybe even a turning point" in monetary policy, Mr Olaf Sievert, president of the state central bank of Saxony-Turingia, said that "a definite end of the monetary easing has by no means been indicated, and has certainly not been agreed upon".

Activity is expected to be calmer today with large parts of Germany closed for the Corpus Christi holiday.

GOVERNMENT BONDS

The June bund future fell to around 92.30, down 0.54 points on the day. France heavily underperformed Germany, with the June notional bond contract on Matif falling by 1.16 point to 116.56.

■ Plagued by inflation fears and weakness in neighbouring markets, UK gilts were one of the day's worst performers.

The June long gilt futures contract fell through the psychologically important 100 level – the lowest level for the front-month contract since January 1993 – to close around 99 24/32, down 1 1/32 on the day.

Traders reported selling of cash bonds by institutions and no buying interest, even though current yields are seen to offer good value. The 10-year gilt currently yields 8.79 per cent, some 191 basis points above its German counterpart.

■ Europe's peripheral markets also fell sharply, with Denmark and Sweden again severely weakened by heavy foreign selling, which also weakened their currencies.

In Italy, the June BTP contract dropped 1.13 points to 107.04 and in Spain, which faces a government bond auction today, the June bond future fell 0.97 points to 93.71.

■ Even in Japan, which has held up well recently, prices were hit by stronger economic data, causing the September JGB contract to fall by 1.11 points in Tokyo, and another 0.49 points in London to 110.82.

■ US Treasury bonds suffered a further setback yesterday morning as traders reacted badly to fresh signs of inflation.

By midday, the benchmark 30-year government bond was 3/8 lower at 85 14/32, with the yield rising to 7.463 per cent. At the short end, the two-year note was down 1/16 at 99 5/8, to yield 6.027 per cent.

The market's fear of inflation was reignited when the National Association of Purchasing Management released the results of its May survey. The overall index came in at 57.7, unchanged from the April reading and a bit higher than the consensus forecast of 57. But the prices index, which is viewed by economists as an accurate indicator of inflation, was up sharply at 71.5, against 63.2 the previous month.

The data showed economic expansion over the past six months was finally creating shortages of raw materials, which were feeding through to prices paid by manufacturers.

As a result, bonds across the board lost ground quickly. Longer-dated securities, whose value is eroded by inflation, suffered the worst damage, dropping by nearly 3/4 points within minutes of the mid-morning announcement. Later, prices stabilised and recovered amid speculation that the Federal Reserve was making an unannounced purchase of three-year and five-year notes.

The release of the NAPM survey, one of the most important of the month, overshadowed one shred of favourable economic news on offer yesterday. The Commerce Department said construction spending had risen 0.6 per cent in April, against expectations of a 1.0 per cent gain.

As the afternoon session opened, traders were already adjusting their positions ahead of Friday's crucial data on May employment. An increase in non-farm payrolls which exceeds the consensus estimate of 285,000 could send bonds into a fresh tail-spin.

Banks follow corporates into short-dated dollar sector

By Peter John

Demand for short-dated dollar denominated debt finally persuaded some banks to follow the lead taken by the big corporates.

Deutsche Bank and J.P. Morgan both tapped the market, pushing the total raised via two-year and three-year dollar debt since AT&T's successful issue last week to $2bn.

Syndicate managers at the two banks were nervous about whether there was still enough appetite, but said they had been persuaded to issue by other banks who were continuing to see strong demand from continental Europe.

Private investors who had liquidated their holdings in long-dated bonds to escape from volatile price moves at that end of the yield curve have recently been looking for a home for their dollars.

J.P. Morgan served up the big deal of the day, raising $300m via three-year paper priced to yield 11 basis points above Treasuries. When the syndicate broke, the spread on the bonds widened to 14 basis points on the bid and some rivals argued that that niche had already been saturated and the US bank had come to the market too late.

INTERNATIONAL BONDS

Syndicate managers were also bemused that a bank with such a high-profile name would need to joint-lead the issue with Morgan Stanley.

J.P. Morgan said its banking arm was keen to maintain impartiality over the choice of syndicate managers and that Morgan Stanley had also bid aggressively for the business.

In its view, the three-year debt offered a coupon of 6.5 per cent, compared with only 6¼ per cent for the two-year area, and demand was still strong.

Deutsche Bank chose the two-year maturity for its $200m issue which was priced to yield 5 basis points over Treasuries and which maintained the spread after trading began.

The bank, which arranged the issue with Goldman Sachs, said: "We were sceptical but we had calls from intermediaries who had sold out of previous issues and wanted more and we got confirmation of the demand from our own investors."

Elsewhere, Olivetti raised L400bn through a five-year bond convertible into ordinary shares from January next year and offering an indicated yield of 7 to 7.5 per cent. The issue was targeted at Italian, US and European institutions.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
JP Morgan & Co.	300	6.50	99.88R	Jun.1997	0.1875R	+11 (6¾%-97)	JP Morgan/Morgan Stanley
Deutsche Bank Finance	200	6.125	99.93R	Jul.1996	0.125R	+5 (7⅞%-96)	Deutsche Bank London
Hyundai Intl.Merchant Bank§‡‡	50	(b)	100.00	Jun.1999	0.27	-	KBB International
YEN							
PCBC‡	15bn	(c)	100.00R	Jul.2001	0.275R	-	IBJ Asia
ITALIAN LIRE							
Olivetti(c)§	400bn	3.50	100.00	Dec.1999	2.50	-	Morgan Stanley Intl.
SWISS FRANCS							
Sudwestdeutsche LB‡‡+	100	5.125	102.00	Feb.1997	standard	-	Merrill Lynch CapMkts.

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. +Private placement. §Convertible. ‡Floating rate note. R: fixed re-offer price; fees are shown at the re-offer level. a) Puttable in Jun.97 at par. b) 6-mth Libor +45bp. c) Fixing within a week. Conv premium indicated at 10% and yield 7-7½%. Callable after 2 yrs with one yr of 140% protection; at acreted value thereafter. d) Short 1st coupon.

News Corp relies on Lords ruling

By Antonia Sharpe

Lawyers acting for News Corp, the media, film and publishing group controlled by Mr Rupert Murdoch, are relying on a landmark ruling by the House of Lords to limit their client's liability in a potentially costly dispute stemming from the publication of an erroneous notice.

The notice, published in the Financial Times last December on behalf of a subsidiary of News Corp, advised holders of News Corp preference shares, which were exchangeable into shares which the company had bought in Pearson in the 1980s, that they were also entitled to shares in Royal Doulton, the fine china manufacturer, as part of the exchange property.

When Pearson, the media, banking and entertainment group which publishes the Financial Times, demerged Royal Doulton last year, it offered its shareholders one Royal Doulton share for every 10 held in the parent.

At the time, dealers estimated that holders of News Corp's preference shares, denominated in sterling and guilders, and News Corp's D-Mark convertible bonds would receive 5½m Royal Doulton shares worth £15m.

However, in January, News Corp stunned the market with another notice which said it was taking legal advice over whether the Royal Doulton shares were part of the exchange property. In February, News Corp said holders were not entitled to the Royal Doulton shares because, in its view, there had not been a change in the composition of the exchange property.

Since then, a number of investment banks have been seeking compensation from News Corp for the financial losses which they and their clients incurred as a result of the first notice. The losses could run into millions of dollars.

Claimants say while News Corp's London-based solicitors, Allen & Overy, are taking a sympathetic approach to claims by individuals who were holders at the time of the erroneous notice, they are taking a much tougher line with those who dealt in the shares as a result of the notice, citing the legal precedent set in Caparo Industries v Dickman.

In 1990, the House of Lords ruled that auditors had no "duty of care" to individual shareholders or other users of accounts, and only to the company and to shareholders as a collective body.

Allen & Overy are drawing an analogy between the Caparo ruling and News Corp's position since the company gave notice to persons registered as holders of the preference shares, not the whole market. Therefore, in their view, News Corp's duty is only to them and not to anyone else who relied on the notice to make investment decisions.

The claimants, some of whom are also believed to be contesting News Corp's claim to the Royal Doulton shares, say it is by no means clear that the Caparo principle will apply in News Corp's case. For example, News Corp had called the issues around the same time as the erroneous notice was published, forcing the market to act.

News Corp declined to comment on the matter apart from to confirm that it was corresponding with a number of people who had written to Allen & Overy to make claims. "We don't feel that it will be useful for us to make general statements about the claims in the press in view of this ongoing correspondence," News Corp said.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		9.000	09/04	100.7700	-1.490	8.88	8.75	8.77
Belgium		7.250	04/04	93.6000	-1.480	8.22	7.88	7.50
Canada *		6.500	06/04	84.6300	-0.600	8.85	8.48	8.35
Denmark		7.000	12/04	90.4500	-1.820	8.39	7.89	7.52
France	BTAN	8.000	05/98	104.3750	-0.500	6.69	6.38	6.32
	OAT	5.500	04/04	86.4800	-0.890	7.46	7.13	7.05
Germany		6.750	05/04	97.9500	-0.440	7.04	6.91	6.57
Italy		8.500	01/04	90.5000	-0.500	10.07†	9.46	9.14
Japan	No 119	4.800	06/99	106.5440	-0.700	3.29	3.06	3.33
	No 157	4.500	06/03	102.1870	-2.330	4.17	3.73	3.89
Netherlands		5.750	01/04	90.1200	-0.900	7.20	6.93	6.80
Spain		10.500	10/03	102.7000	-1.000	10.02	9.62	9.71
UK Gilts		6.000	08/99	89-27	-31/32	8.46	7.79	7.77
		6.750	11/04	86-05	-29/32	8.79	8.27	8.12
		9.000	10/08	101-26	-17/32	8.77	8.36	8.23
US Treasury *		5.875	02/04	90-24	-5/32	7.22	7.19	7.10
		6.250	08/23	85-14	-7/32	7.46	7.44	7.32
ECU (French Govt)		6.000	04/04	86.9400	-0.920	7.96	7.55	7.53

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Lunchtime

Prime rate	7¼	One month	3.58	Two year	6.04
Broker loan rate	5½	Two month	4.09	Three year	6.43
Fed.funds	4⅛	Three month	4.31	Five year	6.85
Fed.funds at intervention	-	Six month	4.86	10-year	7.24
		One year	5.41	30-year	7.50

(Treasury Bills and Bond Yields)

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	118.00	116.56	-1.16	118.16	116.54	267,209	105,337
Sep	117.02	115.60	-1.16	117.23	115.58	31,915	38,069
Dec	116.12	114.70	-1.16	116.24	115.10	364	8,462

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jul	Calls Sep	Calls Dec	Puts Jul	Puts Sep	Puts Dec
119	0.27	0.70	-	-	3.94	-
120	0.14	0.40	-	-	4.68	-
121	0.05	0.27	0.37	-	5.51	-
122	0.03	0.17	-	-	-	-
123	-	0.10	0.15	-	7.40	-

Est. vol. total, Calls 53,663 Puts 101,496. Previous day's open int., Calls 213,369 Puts 206,022.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	92.87	92.22	-0.62	93.18	92.16	186483	117360
Sep	92.31	91.50	-0.81	92.57	91.45	69183	54219
Dec	91.52	91.10	-0.87	91.64	91.32	94	406

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jul	Calls Aug	Calls Sep	Calls Dec	Puts Jul	Puts Aug	Puts Sep	Puts Dec
9150	0.87	1.22	1.49	1.76	0.87	1.22	1.49	2.16
9200	0.63	0.99	1.24	1.55	1.13	1.49	1.74	2.45
9250	0.44	0.78	1.02	1.36	1.44	1.78	2.02	2.76

Est. vol. total, Calls 13640 Puts 17183. Previous day's open int., Calls 134165 Puts 156360

■ NOTIONAL MEDIUM TERM GERMAN GOVT. BOND (BOBL)(LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	99.20	98.63	-0.40	99.20	98.73	255	1126
Sep	98.63	97.87	-0.76	98.63	98.63	50	0

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	108.50	107.16	-1.06	108.89	106.80	64830	53397
Sep	107.55	105.82	-1.25	107.70	105.80	22456	28959
Dec	-	105.82	-1.25	-	-	0	0

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Sep	Calls Dec	Puts Sep	Puts Dec
10550	2.54	3.55	2.22	3.23
10600	2.28	3.30	2.44	3.48
10650	2.01	3.07	2.69	3.75

Est. vol. total, Calls 2323 Puts 3708. Previous day's open int., Calls 15468 Puts 12863

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	94.95	93.75	-0.97	95.06	93.65	99,999	115,432
Sep	94.50	93.35	-0.90	94.50	93.16	9,649	16,949

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	101-02	99-24	-1-02	101-14	99-17	76252	56191
Sep	100-00	98-20	-1-04	100-10	98-11	42052	76763
Dec	-	97-20	-1-04	-	-	0	0

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Sep	Calls Dec	Puts Sep	Puts Dec
98	2-57	3-15	2-17	3-39
99	2-24	2-51	2-48	4-11
100	1-59	2-25	3-19	4-49

Est. vol. total, Calls 1732 Puts 2860. Previous day's open int., Calls 30051 Puts 18725

Ecu

■ ECU BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	84.90	83.32	-1.38	85.04	83.78	1,478	9,491

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	103-21	103-20	+0-02	103-23	103-07	86,998	257,697
Sep	102-24	102-20	-	102-24	102-08	312,134	168,107
Dec	102-02	102-00	+0-01	102-02	101-21	2,534	36,050

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	112.08	-	-	112.14	111.60	597	0
Sep	111.31	-	-	111.41	110.82	4546	0

* LIFFE contracts traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Wed Jun 1	Day's change %	Tue May 31	Accrued interest	xd adj. ytd		Low coupon yield Jun 1	Low May 31	Low Yr. ago	Medium coupon yield Jun 1	Medium May 31	Medium Yr. ago	High coupon yield Jun 1	High May 31	High Yr. ago
1 Up to 5 years (24)	121.32	-0.47	121.89	2.24	4.34	5 yrs	8.49	8.28	7.13	8.70	8.50	7.35	8.81	8.58	7.58
2 5-15 years (22)	137.78	-1.08	139.27	2.34	5.32	15 yrs	8.79	8.63	8.05	8.92	8.75	8.45	9.24	9.07	8.71
3 Over 15 years (9)	152.98	-1.28	154.96	3.24	4.06	20 yrs	8.75	8.59	8.28	8.92	8.75	8.54	9.05	8.87	8.76
4 Irredeemables (6)	169.95	-2.45	174.46	1.02	6.36	Irred.†	8.86	8.62	8.60						
5 All stocks (61)	136.02	-0.93	137.30	2.47	4.82										

Index-linked							Inflation 5% Jun 1	May 31	Yr. ago	Inflation 10% Jun 1	May 31	Yr. ago
6 Up to 5 years (2)	184.46	-0.06	184.57	0.83	2.53	Up to 5 yrs	3.94	3.90	2.92	2.95	2.91	2.18
7 Over 5 years (11)	170.77	-0.28	171.25	1.25	1.69	Over 5 yrs	3.93	3.90	3.56	3.74	3.72	3.38
8 All stocks (13)	171.32	-0.26	171.76	1.21	1.77							

Debentures and Loans						5 year yield Jun 1	May 31	Yr. ago	15 year yield Jun 1	May 31	Yr. ago	25 year yield Jun 1	May 31	Yr. ago
9 Debs & Loans (76)	124.57	-1.08	125.93	2.20	4.92	9.95	9.83	8.60	9.90	9.77	8.42	9.84	9.71	9.58

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	June 1	May 31	May 27	May 26	May 25	Yr ago	High*	Low*
Govt. Secs. (UK)	91.04	91.73	93.06	93.69	93.79	95.04	107.04	91.04
Fixed Interest	109.33	110.90	111.15	111.78	112.74	111.32	133.87	109.33

* for 1994. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974

GILT EDGED ACTIVITY INDICES

	May 31	May 27	May 26	May 25	May 24
Gilt Edged bargains	85.9	83.0	132.0	127.1	95.3
5-day average	104.7	103.5	106.5	102.3	98.7

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on June 1

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. [illegible] CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. [illegible]

UK GILTS PRICES

Notes	Yield (1)	Yield (2)	Price £	+ or -	1994 High	1994 Low
Shorts (Lives up to Five Years)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Other Fixed Interest [illegible]

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds.

COMPANY NEWS: UK

Wolseley expands with $42m US buy

By David Wighton

Wolseley, the heating and plumbing merchant, is expanding its photographic equipment distribution business with the purchase of Calumet Holdings of the US for $42.3m (£28m).

Wolseley is already the leading distributor of professional photographic equipment in Europe and believes the deal will make it the largest supplier in the world.

Mr Jeremy Lancaster, chairman, said that Chicago-based Calumet's expertise in mail order made it particularly attractive for Wolseley. "We are interested in developing mail order and believe it may be appropriate for some of our other businesses."

Calumet, which is being acquired debt-free, made an operating profit of $5.06m on sales of $62.8m last year. Mr Lancaster said that Wolseley was paying about 12.5 times after tax profits and that the deal would enhance group earnings per share.

Wolseley, which has a policy of funding acquisitions with shares, is raising £55m from a placing of shares with institutions at 748p. The new shares, which represent almost 2.9 per cent of the share capital, will also fund a number of further bolt-on acquisitions.

Wolseley first moved into photographic equipment distribution in 1986 when it acquired Grovewood Securities from BAT Industries. This included a leading distributor, Pelling, which Wolseley subsequently expanded with the purchase of its rival Keith Johnson.

Mr Lancaster said buying Calumet would improve the group's purchasing terms and make it a more attractive outlet for manufacturers.

See Lex

British Gas asks for time on Manila bid

By Robert Corzine

British Gas has asked the Philippines government for more time to consider a possible bid for the state-owned Manila Gas Corporation.

The company, which was due to be sold last Monday, distributes natural gas to industrial, commercial and residential users in Manila.

Reuters yesterday reported that the government had deferred the sale in order for the National Development Company, the state owner of Manila Gas, to evaluate new offers from British Gas and two Japanese companies.

But British Gas said it had not yet decided whether to go ahead with a bid.

The government wants to sell its 90 per cent holding in Manila Gas.

The remainder will be sold to small investors.

A government official yesterday said the interest of British Gas and the Japanese companies was "an improvement over the 20 or so potential buyers who expressed interest only in the real estate assets".

Expansion in south-east Asia is known to be a priority for British Gas.

Tapping into a seam of experience

Andrew Taylor on the south Wales coal interests of Powell Duffryn and Wimpey

It is almost impossible to consider the south Wales coal industry operating without Powell Duffryn or George Wimpey. The two companies between them have more than 150 years experience of digging, washing, grading and transporting coal from the region.

It seems perfectly natural, therefore, that Powell Duffryn, now a diversified engineering and distribution company, should seek to join forces with Wimpey, a large construction, housebuilding and opencast mining group, to bid for British Coal's south Wales operations.

For Powell Duffryn it would maintain a 130-year link with the region. The company, founded in 1864 by a south Wales family, claimed to be the world's largest independent coal mining company before the British coal industry was nationalised in 1947.

Wimpey, which currently operates three of the region's nine opencast mines, has operated in the area for more than 40 years.

The companies' experience may prove invaluable given the extreme geological complexity of the region: "God put the coal in, then he trod on it. Seams double back on themselves making even opencast mining difficult," said one coal board official.

The joint venture will include all of the two companies' British coal operations which last year had a combined turnover of about £80m, generating pre-tax profits of about £4m.

Turnover is expected to rise to more than £200m if the joint venture acquires all of British Coal's south Wales interests. The companies have not ruled out taking a stake in other regional coal companies and are also seeking to pre-qualify as a bidder in north-east England.

Their greatest interest, however, is in south Wales. The companies, in addition to the nine opencast sites on offer, could also acquire one remaining deep mine, Tower colliery, placed on care and maintenance, and which is being sold separately.

The three sites operated by Wimpey produced about half of the region's opencast output of more than 2m tonnes during the 12 months to the end of March, accounting for about a sixth of British coal production. Tower's production added another 900,000 tonnes.

About half of the region's coal production is anthracite, a natural smokeless fuel which commands a premium price and is sold mainly for burning in homes and, according to Wimpey, has a strong export potential including to Germany.

Powell Duffryn operates three of the region's five coal distribution sites where it also washes and grades coal ready for sale to customers. Its British coal operations, which have shrunk in recent years, accounted for about 6 per cent of the company's £28.6m pre-tax profit in the year to March 31 1993.

It sells about 500,000 tonnes of coal nationally on its own behalf as well as providing processing and distribution services to British Coal.

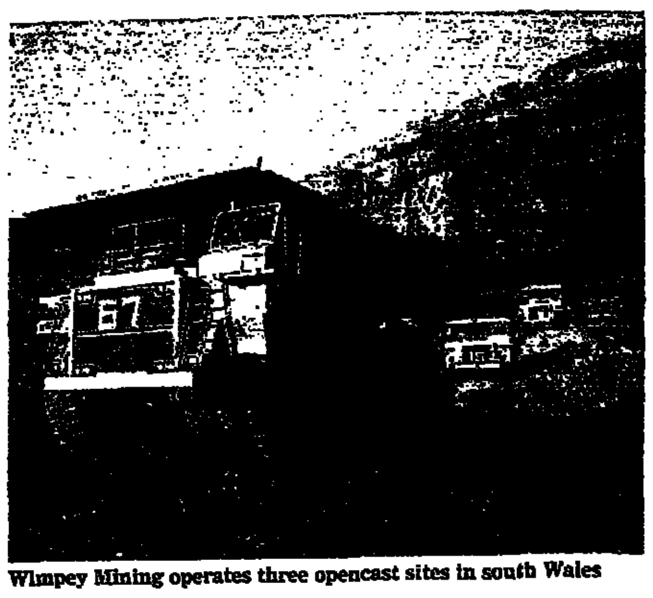
Three years ago it sought to sell its British coal interests to concentrate on its other engineering and distribution activities, including transport and storage of bulk liquid chemicals. It subsequently withdrew the coal businesses from the market because the offers it had received were too low.

Wimpey, by comparison, has remained steadfastly committed to its opencast mining operations started in Britain during the second world war as a means of increasing coal production by using machines rather than valuable manpower. It was one of the first private sector contractors to move into this market.

The company regards mining as an important diversification away from its cyclical construction and housebuilding business. It remains one of the country's biggest opencast contractors, producing 2.5m tonnes of coal last year.

The two companies employ about 600 people in various coal operations in south Wales, including 200 at Ffos Las, the region's biggest opencast site. South Wales sells about 1m tonnes of coal a year to Aberthaw power station. The region's opencast mines have proven reserves of 7.9m tonnes and fully and partly proven reserves at prospective opencast sites of 45m tonnes, says British Coal.

Previous articles in this series appeared on May 30 and June 1. Further articles will appear this week and next.



Wimpey Mining operates three opencast sites in south Wales

Harrods agrees deal with former director

By Neil Buckley

Harrods, the Knightsbridge department store, has "resolved amicably all differences" with its former managing director Mr Peter Bolliger, whose departure from the company in April provoked a bitter war of words.

Mr Bolliger insisted he had resigned after it became impossible for him to work with Mr Mohamed al-Fayed, the store's "hands-on" co-owner.

"He likes to feel he is running the store. He will even go behind a counter and cut salami," Mr Bolliger said at the time.

Harrods claimed Mr Bolliger had been sacked for his unsatisfactory performance, in particular in his running of the Kurt Geiger shoe chain, and handling of the dismissal of a senior manager.

The company later said it was suing Mr Bolliger for breach of contract and lodged a writ with the High Court.

Mr Bolliger moved out of his Knightsbridge home and returned to his native Switzerland, but his solicitors have released a statement saying that "Harrods have resolved amicably all differences with Peter Bolliger on terms acceptable to all parties."

Neither side would comment on the terms of the agreement.

Harrods had also passed on a dossier detailing alleged irregularities by Mr Bolliger to Chelsea CID, but it is thought the police investigation is unlikely to proceed.

Sketchley bolstered by Supasnaps

By Peggy Hollinger

A move into the photographic film business helped Sketchley, the dry cleaning and photo processing group, increase pre-tax profits by 6 per cent before exceptionals to £5.1m in the year to April 1.

Supasnaps, the photo processor acquired for a total cash payment of £6m in 1993, offset a difficult year in the core dry cleaning business.

The new division contributed £1.4m to operating profits of £6.6m. This compared with a total operating return of £5.8m last time, which was depressed at the pre-tax level by a £1.7m exceptional charge.

Sales were also boosted on the back of the acquisition, rising by 37 per cent to £142.9m. Excluding Supasnaps, sales fell by 3 per cent to £101.4m.

Mr John Richardson, deputy chairman, said that he was optimistic about the current year, particularly given the recent increase in dry cleaning volumes.

In four of the first five months of 1994, there had been a rise in sales of about 2 per cent.

An increase in the dividend was intended to pass that confidence on to shareholders, he said.

The pay-out is increased by 10 per cent to 2.2p, for a total up 7 per cent at 3.2p, payable from earnings per share ahead from 4.9p to 6.7p.

The integration of Supasnaps was going forward as planned, with substantial cost savings yet to be realised. Sketchley had cut £1.2m in costs last year and expected a further £800,000 in savings this year.

The group merged 40 Supasnaps outlets with dry cleaning shops, and planned to combine a further 50 this year.

Textile rental suffered an £800,000 drop in operating profits, due to the accelerated closure of British Coal pits.

Mr Richardson said Warrender Aircraft Services, purchased six weeks ago for £8m, was expected to contribute more than £1m this year.

Revamped Borthwicks returns to the black

By Caroline Southey

Borthwicks mounted a sharp recovery in the first full year following disposal of its loss-making meat interests, with pre-tax profits of £1.71m for the 12 months to April 2, against losses of £1.99m.

The natural flavours company achieved sales of £29.2m, up 11.5 per cent on last time's £25.6m from continuing operations.

The outcome took in losses of £117,000 on disposals; the previous year's deficit was struck after £3.08m of losses on disposals and reorganisation costs.

"This year saw Borthwicks for the first time focused on its future as an international flavours business and we are pleased with the turnround to profit. In operating terms this side of our business has always made money and we will continue to build on its reputation," Mr Peter Brackenridge, chief executive, said yesterday.

Operating profits from continuing operations rose 12 per cent from £2.03m to £2.27m, but rose only 3.8 per cent if losses by F&C Hong Kong, a flavours and fragrance maker acquired in July, were taken into account.

Sales in the UK market, which account for two thirds of turnover, remained flat although exports showed an increase of 14 per cent.

Trading remained strong in the US where sales of Borthwicks Flavours USA rose by 16 per cent in dollar terms and 28 per cent in sterling terms.

Earnings per share were 2.5p compared with losses of 3.8p. A recommended final dividend of 0.8p lifts the total by 8 per cent to 1.3p.

Lasmo bid extended as controversy grows

Enterprise Oil yesterday extended its hostile bid for rival explorer Lasmo until June 17 amid increasing controversy over the target's allegations that it had breached accounting standards.

Officials from the Takeover Panel are believed to have discussed the accusations with Lasmo as part of their on-going examination of the bid.

Separately, Lasmo is believed to have written to both the Financial Reporting Review Panel, the UK accounts watchdog, and the US Securities and Exchange Commission, to complain about Enterprise's accounting policies.

It claims that Enterprise contravened SSAP 23, the standard on acquisitions and mergers, in its treatment of the acquisition of the Beryl oil field properties in 1988 and Texas Eastern in 1989.

Enterprise is offering 27 Enterprise A shares and 12 warrants for every 80 of Lasmo's. Any revised offer must be made by June 17.

See accounting column

Racal expands in Singapore via £9.7m buy

By Paul Taylor

Racal Electronics has paid S$22.4m (£9.7m) cash to acquire an 80 per cent stake in Techno Transfer Industries, a Singapore-based group which builds and operates remotely controlled submarines.

The acquisition includes Asiatic Underwater Contractors, a Techno subsidiary which provides remotely operated submersible vehicle services to the offshore industry and to more than half of the drill rig support market in east Asia.

Techno, which has a modern fleet of 11 remotely operated submarines, will become part of the Racal Energy division.

Mr David Elsbury, Racal Electronic's chief executive, said the acquisition "provides us with a cost effective entry in a market which is currently worth £100m a year and is expected to increase."

Techno made pre-tax profits of S$844,000 on turnover of S$7.5m in the year to last June In the current year pre-tax profits of S$1.97m are expected on turnover of S$9.5m. Net assets are about S$6.5m.

Daily Mail pays £6.8m for local radio portfolio

By Raymond Snoddy

The Daily Mail and General Trust, owner of the Daily Mail, yesterday increased its presence in commercial radio with the purchase of a portfolio of radio investments previously owned by MAI, the broadcasting and financial services group.

The purchase by Harmsworth Media, a subsidiary of Daily Mail and General Trust, was for a total of £6.8m.

MAI had gained the stakes through its purchase of Anglia Television and did not see itself as a player in the radio market.

As a result Harmsworth now holds 18.5 per cent of Chiltern Radio, 19.2 per cent of East Anglian Radio and 13.3 per cent of Essex Radio.

The company already owned 19 per cent of GWR, the Bristol-based group; 4 per cent of Classic FM, 39 per cent of Radio Trust; a collection of stakes under 10 per cent and 18 per cent of Swansea Sound.

At the moment Harmsworth, as the subsidiary of a national newspaper group, is unable to own stakes of more than 20 per cent in commercial radio stations.

The government is, however, in the middle of a reviewing cross-media ownership rules and some degree of liberalisation is likely.

US software purchase for Micro Focus

By Alan Cane

Micro Focus Group, the Berkshire-based computing services company which has seen its share price slide sharply over the past year, is to pay up to $13.5m (£8.9m) to acquire Buri Software Laboratories, a North Carolina software house.

The deal calls for the exchange of between 400,000 and 800,000 of Micro Focus ADRs and possibly some cash. It will be treated as a pooling of interests under US accounting rules.

Micro Focus, a developer of software for personal computers which makes large scale software easier to write, has seen the value of its shares fall from £30 to less than £10 on fears that growth was slowing. Excellent first quarter results partly reversed the trend. Yesterday the shares stood at £10.78p.

Buri, established two years ago, now has 12 employees and negligible assets and profits. It makes a software tool for the analysis of existing systems written in Cobol.

Buoyant used car sales behind rise at Lookers

Lookers, one of the top 10 UK motor dealer groups, more than doubled interim pre-tax profits thanks largely to buoyant used car sales, writes Caroline Southey.

Pre-tax rose from £1.54m to £3.09m in the six months to end-March on turnover ahead by 14.2 per cent to £187m (£164m).

The group raised its interim dividend by 20 per cent from 2p to 2.4p. The pay-out is covered more than three times by earnings of 7.8p (2.6p) per share.

Mr Ken Martindale, chairman, said that profits had increased chiefly as a result of a 19 per cent increase in used car sales coupled with improved margins.

Sales of new cars to the fleet sector fell slightly, he said, but sales to retail customers had risen by 13.5 per cent.

"We felt that margins at the top end of the fleet market were not worth getting into and we did not get into deep discounting. But with constant hard work I am confident we will be able to hold our improved margins," Mr Martindale said.

Increased personal taxation from April had interrupted the rising sales trend, but Mr Martindale predicted a steady increase through to the end of the year.

He said the company would be looking at expansion opportunities next year in the light of a further reduction in its gearing, which had fallen to 36 per cent at the end of March from 53 per cent a year ago.

Life Style postpones float in weak market

By David Wighton

The tumbling stock market claimed another new issue victim yesterday when the flotation of Life Style Care, the nursing home group, was postponed. Albert E Sharp, the company's sponsor, had been marketing the shares to institutions for a couple of weeks and the issue was set to be priced next week.

"The reaction from institutions was very positive but in view of the incredibly volatile market conditions it was decided it was not the right climate to go ahead," the company said.

Several new issues were pulled last week and sponsors are now looking hard at some companies in their pipelines. "I would be very surprised if all ours went ahead on schedule," said one corporate broker.

Life Style Care, which has 14 homes with 564 beds, was planning a £10m share placing which would have valued it at between £20m and £25m.

The family of Mr Ramesh Sachdev, the founder, which owns 85 per cent of the equity, was looking to sell about £2m worth of shares with the rest of the money going to the company to pay off borrowings.

Life Style Care, which specialises in caring for the elderly mentally infirm, made pre-tax profits of £1.2m on turnover of £5.3m in the year to last June.

Spring Ram buys Rest Assured

Stag Furniture Holdings, part of Spring Ram, the lossmaking kitchens and bathrooms group, is acquiring Rest Assured and five properties used by it for £5m from BTR, the industrial conglomerate.

Rest Assured is a branded bedding, upholstery and furniture maker. Stag has purchased net assets of about £3m in respect of the business and £1.75m for the properties.

Spring Ram said that Rest would break even over the current year, after costs.

Pentland acquires Reusch

By Peggy Hollinger

Pentland yesterday made a small dent in its £185m cash pile with the acquisition for up to £20m of a German sports goods company.

The group is paying DM30m (£12m) for Karl Reusch Handschuhfabrik, which markets, licenses and manufactures specialist sports clothing and equipment. A further DM20m will be paid in 2000 if Reusch meets profits targets between 1997 and 1999.

Reusch is perhaps best known for its goalkeeping gloves. Pentland estimates that 75 per cent of the goalkeepers at the World Cup this month will be wearing Reusch gloves.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Aberdeen Trust	int	0.6	July 27	0.5	-	1.5
Borthwicks	fin	0.8	Aug 3	0.7	1.3	1.2
Channel Hldgs	fin	0.7†	July 14	1	1.2	1‡
Granada	int	3.33†	Oct 3	3.025	-	8.75
Kembrey	fin	0.155	Aug 24	0.155	0.155	0.155
Lookers	int	2.4	Sept 30	2	-	6.5
NIE	int	8	Oct 3	-	11.39	-
Ramco Oil §	fin	0.5†	July 29	1	0.5	1
Sketchley	fin	2.2†	July 22	2	3.2	3
Sturge	int	1	Sept 2	1	-	3
Usborne	int	nil	-	0.2	-	0.5‡‡

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock. ‡For 15 months. ‡‡For18 months.

NEWS DIGEST

Low prices hold back Ramco Oil

Pre-tax profits of Ramco Oil Services, the USM-quoted energy services group, slipped from £349,000 to £323,000 in the year to end-December. Turnover fell from £5.43m to £4.78m.

Earnings emerged at 0.6p (1.68p) and the dividend for the year is halved to 0.5p.

The directors said the fall in turnover reflected lower levels of activity related to declining oil prices.

In December last year Ramco commissioned its one-stop tubular service centre at Badentoy, near Aberdeen, and completed the sale of its former site at Altens.

A placing of 800,000 new shares at 121½p took place in May 1993, and a further 485,000 were placed at 125p in August. The funds raised helped enable the completion of the first phase of the Badentoy facility.

Sturge advances to £493,000 at midway

Sturge Holdings, the Lloyd's underwriting agency, reported pre-tax up from £326,000 to £493,000 in the six months ended March 31 1994.

The directors said an increase of £1.6m in stockbroking income to £7.56m was more than offset by a reduction of £2.9m in insurance agency income to £4.85m, which resulted from lower capacity under management and reduced levels of run-off management fees.

The operating loss of insurance agencies was £1.84m (£1.89m) while stockbroking profit was £1.37m (£951,000).

Net profit emerged at £243,000 (£196,000) and earnings per share were 0.5p (0.4p). The interim dividend is held at 1p.

Fenner plans to buy out S African arm

Fenner, the specialist engineering group, proposes to acquire the balance of the shares in Fenner Group SA – its South African subsidiary.

FGSA, which is quoted on the Johannesburg Stock Exchange, makes and distributes a range of power transmission equipment, conveyor belting and polymer products together with industrial pumps and specialised foundry castings.

Fenner, which has a 50 per cent interest in FGSA, intends to offer to acquire the minority shares at R4.56 apiece – a total consideration of R34.2m (£5.5m).

The offer price represents the net asset value of the shares at February 28 this year.

BAT concludes South Africa deal

BAT's South African subsidiary has concluded the sale of its Willards Foods division to National Brands, part of Anglovaal Industries, for about £55m cash.

BAT said the disposal of Willards, which makes snack foods, allowed it to concentrate on tobacco and financial services in South Africa.

Winchester Multimedia expands

Winchester Multimedia, traded under Rule 535, announced pre-tax losses of £354,630 for the year ended March 31 and has entered the music business by acquiring Meridian Music.

The terms of the deal, completed earlier this week, are 150,000 new Winchester shares, with further shares due if pre-tax profits reach £100,000 for the year to March 31 1995. The maximum number of total shares payable is 400,000, equalling £200,000 on Tuesday's closing price.

As stated at the time of Winchester's £1.5m share issue in January, there is no dividend payment. The proceeds are being used to develop the business, which is engaged in film production, television, consumer products and publishing.

Turnover in the 12 months came to £43,237. There was an operating loss of £364,658.

Mexico link helps Ionica raise £30m

Ionica, the private Cambridge-based telecommunications company pioneering radio access technology, has raised £30m this year.

A strategic partnership with Pulsar, the Mexican conglomerate, accounts for most of the investment, which takes Ionica's equity base to £45m.

Ionica aims to offer a telecoms service for "fixed" phones in competition with BT, using radio links for its local network instead of underground cable. It is piloting its technology in East Anglia and plans to launch its service next year.

Pulsar plans to use the technology to offer a similar service in Mexico.

Hartons acquisition talks terminated

Shares of Hartons slipped 2p to 5p after the Sheffield-based plastics distributor said that discussions relating to a "possible substantial acquisition" had been terminated.

The group announced that the talks were under way in early March when it also released annual results for the 1993 year showing reduced pre-tax losses of £4.52m on turnover from continuing operations of £47m.

F&C Pep lifts net asset value

Foreign & Colonial Pep Investment Trust reported net asset value per share, taking prior charges at nominal value, of 121.3p as at March 31.

The value compared with 107p a year earlier and 116.9p at the trust's September year-end.

Available revenue for the six months amounted to £746,000 (£292,000) for earnings of 1.65p (0.99p) per share. As already announced, the interim dividend increases from 0.9p to 1p.

McKechnie sells La Cornubia for £4.7m

McKechnie, the plastics and metal components group, has sold La Cornubia, a copper sulphate and copper-based fungicides producer, to LC Holdings, a company controlled by Phillip Chemicals of New York.

The consideration is FFr40.3m (£4.68m) to be paid in cash and the purchaser will also assume FFr3.8m of debt.

PUBLIC WORKS LOAN BOARD RATES
Effective May 26

	Quota loans*					
	"Lower" quota rates			"Higher" quota rates		
Years	EIP†	A††	at maturity§	EIP†	A††	at maturity§
1	-	-	5¾	-	-	5½
Over 1 up to 2	5¾	5¾	6¾	5½	5⅞	6½
Over 2 up to 3	6½	6½	7¼	6¾	6⅝‡‡	7⅝
Over 3 up to 4	7	7½	8	7½	7¼	8⅛
Over 4 up to 5	7⅜	7⅜	8¼	7½	7¾	8¾
Over 5 up to 6	7⅝	7¾	8½	7¾	7⅞	8⅝
Over 6 up to 7	7⅞	8	8⅝	8	8⅛	8¾
Over 7 up to 8	8	8⅛	8¾	8⅛	8¼	8⅞
Over 8 up to 9	8⅛	8¼	8⅞	8¼	8½	9
Over 9 up to 10	8¼	8⅜	8⅞	8½	8½	9
Over 10 up to 15	8⅜	8⅝	8¾	8⅝	8¾	9⅛
Over 15 up to 25	8⅝	8¾	8⅞	9⅛	9⅛	9
Over 25	8¼	8⅝	8⅝	9⅛	9	9

*Non-quota loans A are 1 per cent higher and non-quota loans B 2 per cent higher in each case than quota loans. †Equal instalments of principal. †† Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

Some 510 staff leave core business, further reductions planned

Cost cuts help NIE to £75m

By Michael Smith

Job cuts and above average sales growth helped Northern Ireland Electricity, which was privatised last June, to increase annual pre-tax profits by 28 per cent, from £58.7m to £74.9m.

The comparative figures are on a pro forma basis.

NIE cut 510 staff from its core business in the 12 months to March 31, leaving 2,756 in place.

It plans to lose at least another 200 by March 1996.

The jobs cuts were one of the factors behind a 5 per cent reduction in controllable costs during the year.

The company also benefited from a 2.4 per cent growth in unit sales for the year, compared with an average of 1.1 per cent achieved by power distributors in Great Britain.

Operating profit increased to £81.9m (£72.3m) on turnover of £482m (£458m). The pre-tax line, however, was depressed by an £8.2m exceptional item for reorganisation and restructuring costs mainly incurred in reducing staff.

Earnings per share were ahead 32 per cent at 36.7p (27.8p). A proposed final dividend of 8p gives a total of 11.39p.

Sir Desmond Lorimer, outgoing chairman, said the company had told the industry regulator that it favoured the introduction of competition into the market.

The regulator has already tabled proposals for the creation of a pool trading system.

Sir Desmond said NIE had "highlighted the need to avoid structures which are uneconomic or which might compromise stability".

Fergus Wilde

Sir Desmond Lorimer (left), and Patrick Haren, chief executive

● COMMENT

The pattern is familiar enough. A recently privatised company finds the scope for cutting costs is far greater than it had imagined when it was negotiating with the government on setting the price for the sale. It happened when the power industry in England and Wales was privatised four years ago and it has happened again with NIE. Consumers and taxpayers will no doubt complain, but shareholders need not worry too much. They can rejoice that, unlike the England and Wales power companies, NIE will escape major regulatory reform this summer. They should also congratulate the management whose control on job numbers and capital expenditure should ensure that gearing will reach nothing like the 60 per cent levels once predicted for the late 1990s; even 40 per cent may seem excessive now. With dividend cover last year at 3.2 times, there is plenty of scope to increase the distribution to shareholders. This year could see about 13p, putting the shares on a prospective yield on a fully paid basis of 4.6 per cent, nearly a percentage point lower than the England and Wales power companies. Nonetheless, the shares have been strongly outperforming recently. In the short term their progress will be arrested as the June 28 deadline approaches for paying the second instalment for the shares.

Expanding Aberdeen Trust ahead to £3.5m

By Graham Deller

An expanding range of investment trusts and substantially improved margins lay behind an impressive first-half performance from Aberdeen Trust.

Turnover at the fund management and accountancy services group improved by 25 per cent during the six months to March 31 – from £7.15m to £8.96m – but pre-tax profits advanced to £3.51m, a figure that compared with £981,000 last time and exceeded the outcome of £3.15m achieved in the group's last full year.

The advance was attributed to increased income growth and reduced fixed overheads resulting from the rationalisation programme implemented last year.

Directors said that a further £74m had been committed by investors in 1994 following the launch of Abtrust High Income Trust and capital issues from Abtrust New Dawn Investment Trust and Abtrust Scotland Investment. Total funds under management at the period-end amounted to £2.33bn, a rise of 22 per cent.

The group has used the sizeable gain in operating cash flow to reduce borrowings; gearing was 32 per cent at end-March, down from 45 per cent at the September year-end and 67 per cent at the same stage of 1993.

The interim dividend rises 20 per cent to 0.6p, payable from earnings of 2.92p (0.81p).

Warner-Wellcome starts its European operations

By Daniel Green

The European operations of Warner-Wellcome, the new consumer health joint venture between Wellcome of the UK and Warner-Lambert of the US, came into being yesterday, two weeks after being given the go-ahead from the European Commission.

"We received a 'comfort letter' from the Commission indicating that there were no objections," said Mr James Cochran, European operations director of Wellcome.

The Commission said in March that it was reviewing the deal.

A letter of intent was signed by the two companies in July 1993 and the North American arm of the operation came into existence in January 1994.

Warner-Wellcome is 50-50 owned by the two partners in Europe and 70 per cent owned by Warner-Lambert in the US.

Mr John Walsh, president of Warner-Lambert's consumer products division, said the venture should double its worldwide sales of over-the-counter medicines from a current level of $1.6bn (£1.1bn) in the next five years.

The European operation will sell a range of products including Listerine mouthwash, Actifed cold treatment and Zovirax, Wellcome's anti-viral drug for use on cold sores.

Mr Walsh said that the market for OTC products would grow from $30bn to $40bn a year by 2000. The joint venture's sales would double over five years thanks to "switch products" – prescription drugs such as Zovirax that receive approval for OTC sales.

The venture has a licence from Glaxo to sell an OTC version of the world's biggest selling prescription drug – Zantac, the ulcer treatment.

Zovirax is yet to receive OTC approval in the US. The terms of the contract between Wellcome and Warner-Lambert provide for a review of the joint venture if the drug fails to secure approval.

The company will be seeking further licences to sell OTC versions of prescription drugs, said Mr Cochran, although none were close to being secured. The OTC market would grow quickly because individuals wanted to be able to treat themselves without having to consult a doctor, he added.

Chesterton sees 34% rise

By Simon Davies

Chesterton International, the property consultancy, is predicting a 34 per cent increase to £5.1m in profits before tax for the year to end-June, helped by a strong increase in property activity in southern England.

Chesterton issued its pathfinder prospectus yesterday for a flotation which will value the group at more than £50m and offer about 40 per cent of its enlarged share capital through a placing.

About 25 per cent of the offer will comprise new shares, raising £5m for the group to lower debt and fund future expansion.

Two thirds of the old shares being placed will come from former employees and "near-term retirees". The remainder, amounting to approximately £5m of shares, will be be sold by current employees, who will retain more than 50 per cent of the company's shares.

At the current minimum issue price of 100p, the shares would be issued on a p/e of about 14.

Chesterton, like most consultancy businesses, has few assets, and post flotation, shareholders funds will amount to some £10m.

Employees are its key asset, and a costly one to maintain. Staff costs amounted to £25.8m in the year to June 1993, up from £21.7m.

The company has already seen significant improvement in profit margins from its core consultancy businesses.

Advisory fees accounted for 72 per cent of last year's revenue, and Chesterton intends to build up further its consultancy business to maintain a more consistent earnings base in a business renowned for volatility.

The flotation is sponsored by Robert Fleming; pricing will be announced on June 15.

NEWS DIGEST

Towles rejects Australians

Towles, the lossmaking clothing manufacturer which last week was the subject of a £4.22m cash bid from London City Equities, yesterday dismissed the offer, saying it "undervalued the company".

London City, an Australian investment group which has 51 per cent of the equity but only 14 per cent of the votes, said it made the offer because it was "outraged" at Towles' continuing losses.

The offer, announced last Friday, comprises 265p for each ordinary share, 115p for each A ordinary share, 52p for each A preference share, and 78p for each B preference share.

Towles reported losses of £236,000 from turnover of £15.7m for the year to end-February. London City said it planned to introduce new management if it was successful.

The Towles board yesterday said it would provide detailed advice in due course. Meanwhile, shareholders were advised to take no action.

Alpha Airports Australian venture

Alpha Airports Group has formed a joint venture with Connat Flight Services, Australia's largest independent flight caterer, through the acquisition of 49 per cent of the company for some A$7.5m (£3.7m).

Connat serves Qantas and Ansett, Australia's two international airlines. In 1992-93 it made £1.3m pre-tax.

The remaining 51 per cent of the company will continue to be held by the founders.

Northumbrian Water DM15m buy

Northumbrian Water Group has, through its Montec International subsidiary, paid DM15.3m (£6.2m) to acquire the waste water sampling and distribution activities of Edmund Buhler.

The company, based south of Stuttgart in Baden Württemberg, claims to be the European market leader in the manufacture and distribution of waste water sampling equipment.

Cedardata ahead of forecast with £2.71m

In its first set of results since flotation in March, Cedardata, the Surrey-based supplier of financial accounting and commercial computer software, lifted pre-tax profits by 52 per cent from £1.78m to £2.71m for the year ended March 31 – just ahead of forecast.

Turnover expanded 16 per cent to £6.12m (£5.26m). Earnings per share were 6.3p (4.2p).

At its share placing – priced at 105p valuing the company at £32.2m – the directors forecast pre-tax profits of £2.65m.

Mr Leon Fattal, managing director, said that sales prospects were significantly ahead.

Acquisitions help Channel to £1.7m

Channel Holdings, a maker of security products and anti-theft devices for cars, achieved pre-tax profits of £1.7m for the year to March 31 against £308,000 for the previous 15 months.

The result includes a full 12-month contribution from Carflow Products and a maiden contribution from CQR Security Components, consolidated from April 19 1993.

Turnover amounted to £15m (£1.52m). Acquisitions generated sales of £12.1m and contributed £1.11m to operating profits of £1.69m.

Earnings were 3.5p (2.4p) and a final dividend of 0.7p is proposed for a 1.2p total (1p for 15 months).

Avesco sells part of AVS

Avesco, the broadcast equipment and services group, is selling the television standards convertor part of the television products business carried on by AVS Broadcast to Elmview Properties for about £2.3m.

The consideration is made up of £1.5m cash with the balance by the allotment of 397,482 ordinary £1 Elmview shares.

Avesco has also conditionally agreed to buy a further 496,856 shares from other Elmview shareholders for £1m cash and, in connection with the merger of Elmview with Routine Data, to sell its shareholding in Elmview to Routine.

As a result, Avesco will receive £500,000 cash in addition to its Routine shares, representing an 18 per cent stake in the company.

The above transactions are conditional on the acquisition by Elmview of another television products company.

British Midland growth

British Midland Airways, the UK's second largest scheduled airline, yesterday further extended its network of international partnerships by forging a ticket code-sharing agreement with Austrian Airlines, writes Paul Betts.

Under the deal, the Austrian flag carrier will offer seats on British Midland services to Belfast, Dublin, Glasgow and Edinburgh, Teesside and Leeds Bradford via London's Heathrow airport.

In turn, British Midland passengers will be able to make twice daily connections into Austrian's hub in Vienna.

Code sharing allows two airlines to use their respective ticket codes on each other's flights.

The British Midland-Austrian agreement will start on July 1 and travellers will be issued with connecting flight boarding passes and advance seat selection at their point of departure.

Selling spree hits copper and coffee

By Our Commodities Staff

Commodities and precious metals prices tumbled yesterday in Chicago, London and New York as investment funds and speculators sold heavily.

However, maize and soyabean prices, which rose so strongly in Chicago on Tuesday, held on to most of those gains yesterday after early setbacks.

Coffee and copper prices, which have been the main beneficiaries of the recent buying spree in London, went into reverse. Copper for delivery in three months on the London Metal Exchange dropped by $39.50 a tonne to close at $2,227.50. Traders suggested that a slowing in copper's rally, and its failure to move close to recent 16-month highs after a short, downward movement last week, possibly unsettled some speculators.

Coffee prices slid by $56 a tonne in London in a round of profit-taking with the September futures contract at the London Commodity Exchange down at $2,035 a tonne. The market was led down by an early slump in New York where traders were concerned about Friday's expiry of options contracts.

But London trading was thin and volatile and in this case speculators and hedge funds were absent from the market. Ms Judy Ganes, soft commodities analyst at Merrill Lynch in New York, said that a combination of Tuesday's auction of stocks in Brazil which had failed to sell as much as expected, and a lower than expected drop in US stocks, had unsettled the market.

US maize and soyabean futures dipped at yesterday's opening at the Chicago Board of Trade as speculators took profits after a weather-induced rally Tuesday. However, evidence that unseasonably warm, dry weather was persisting in the upper Midwest crop areas bolstered prices after the opening.

At midday, maize futures were little changed from Tuesday's strong closes, and soyabean futures were only 4 to 5 cents per bushel lower.

Platinum market moves into balance

By Kenneth Gooding, Mining Correspondent

The platinum market, having suffered a supply surplus for some years, is now moving back into balance.

Prices should show strong gains during the next 18 months and consolidated in a range between $450 and $500 a troy ounce, according to analyst Ms Rhona O'Connell in a special report for T Hoare and Co.

Platinum closed last night in London at $401.90 an ounce.

Ms O'Connell points out that there is an estimated 700,000 ounces of annual platinum production capacity in South Africa alone that could be brought into operation if prices were right. But she suggests prices will not go high enough to trigger all of this.

Nevertheless, she would "not be at all surprised to see Impala reinstate shelved expansion plans and Rustenburg implement its Lebowa expansion or, more importantly, expand output at the low-cost PP Rust mine."

Mr O'Connell suggests, however, that even higher prices will not save Gold Fields of South Africa's new Northam mine which is likely to be closed because of technical mining problems.

If Northam does remain open there would be a platinum supply surplus of 136,000 ounces this year, she forecasts, and one of 54,000 ounces in 1995. Ms O'Connell points out that investment activity over the past six years has accounted for 328,000 ounces annually and the lowest level in 1989 was 160,000 ounces.

"In theory, therefore, the market should start to see aboveground, industrial stocks drawn down during this year and, all other things being equal, for that drawdown to be relentless."

Kenya's pyrethrum dominance challenged

Michael Griffin on prospects for the major producer of the only true organic pesticide

A record Kenyan crop of pyrethrum, a vital ingredient in many insect-control formulations, will more than compensate for losses arising from the cataclysm in Rwanda, formerly the world's third largest producer of this natural pesticide. But *the further concentration of* supplies in a drought-prone region with its own record of recent ethnic violence is cause for concern among the product's few big buyers.

Pyrethrum first surfaced commercially in Dalmatia and Japan before being transplanted in the 1920s to the Kenyan Highlands, where it is grown as a cash crop by over 40,000 small-scale farmers. Since then, Kenya has regularly produced 60-70 per cent of annual world demand of 20-22,000 tonnes, processing it for export into powdered or liquid concentrates at a refinery in Nakuru on the edge of the Rift Valley.

Despite a nation wide failure of the rains earlier this year, the state-controlled Pyrethrum Board of Kenya (PBK) has reported a harvest of 18,000 tonnes of dried flowers, 45 per cent up on the previous season's 12,400 tonnes. "To have a stockpile puts us in a position of being able to promote pyrethrum and its level of usage," says Mr Job Wainaina, PBK's chief executive.

With prices remaining firm at $60 per kilogram of extract, the new crop gives Kenya a commanding 80 percent share *of world production*.

The existence of this daisy-like flower lends support to the belief that the divine plan, with its generous provisions for cockroaches, mosquitoes, house flies and fleas, may have been subject to later, more thoughtful revision. For processed pyrethrum yields the world's only truly organic pesticide, a quick-acting, bio-degradable powder that is non-carcinogenic, non-toxic to humans and animals and has no history of insect resistance.

Ninety per cent of all pyrethrum is used in the control of these four main pests, usually through aerosol formulations. But pyrethrins, the active ingredient, are deployed wherever human or animal health are more important considerations than kill ratio; the protection of stored grain, beverages and fruits; food preparation and canning; pest control in kitchens, gardens, restaurants and airplanes; and in a variety of veterinary applications. colBut where pyrethrum falls fatally short, in scientific and commercial terms, is that it has no staying power, breaking down rapidly under ultra-violet light.

With the growth of a mass market for household insecticides in the 1950s there came a demand for the development of cheaper, long-lasting alternatives to pyrethrum. There are now over 40 synthetically-produced substitutes.

With Kenyan independence a second reason for diversification emerged: the fear that political instability or poor management would choke off deliveries from the world's largest producer.

"If it were not for doubts over the regularity of supplies, I think the invasion by synthetic pyrethroids would not have been as intense as it has become," says Mr Wainaina.

As it is, the PBK will be lucky to lift exports beyond last year's £10m, in spite of the record crop. Pyrethrins touch the lives of everyone but 80 per cent of the trade is controlled by a handful of large insecticide manufacturers – among them Johnson and Johnson, Roussel, Bayer, Sarah Lee and Sumitomo. As the producer of a raw material which can be utilised or omitted as they see fit, the PBK has an almost apologetic relationship with the buyers, aware that they need its unique product but conscious too that they will cut and run as soon as proprietary substitutes can be found.

Until recently, shoppers for pyrethrum had little alternative but to troop up to Nakuru, the Kenyan market town at the heart of the industry. The cool, surrounding highlands allow flowers to be picked for nine months of the year: elsewhere they yield just a single bloom. The PBK headquarters has a down-at-heel, faintly academic atmosphere not inappropriate to a colonial institution that has mysteriously survived into the present day. With a 90 per cent recovery rate, no fresh investment is envisaged in the existing processing technology.

Two factors have now come to disturb this complacency. For the past 18 months, the Rift Valley has been the scene of a low-intensity range war in which Kalenjin and Masai people, loyal to President Daniel arap Moi, have driven Kikuyu supporters of the opposition from their farms and businesses. Though the violence clearly did not effect this year's crop, it has had an impact upon growers in the Mau Escarpment.

A greater challenge to Kenyan pre-eminence is emerging on the other side of the world in Tasmania. In collaboration with large-scale farmers, Commonwealth Industrial Gasses(CIG), a British Oxygen Group subsidiary, is conducting field trials on the viability of intensively-produced pyrethrum, using high-quality clones on irrigated land. The acreage is still small and the climate not as suitable as Nakuru's, but Tasmania is already in a position "to influence the supply", according to the Mr Wainaina.

If trials show that, despite the shorter season, mechanised farming can be profitable, nothing would then prevent pesticide manufacturers from bringing pyrethrum-growing back to Europe where it started more than 150 years ago. EC regulations on "set-aside" land already permit the cultivation of crops with an industrial, non-food end-use.

Sweden tries to halt Norway's oil drilling

By Hugh Carnegy in Stockholm

Sweden yesterday called on Norway not to proceed with plans to drill oil exploration wells in the Norwegian sector of the Skagerrak, saying the project could damage its fisheries and tourism industries and threaten its rugged west coast.

The plan to allow four exploration wells in the Skagerrak is part of a wider project to increase offshore exploration acreage by 16 per cent in a bid to offset a steep decline in crude oil production expected after 1996 by Norway.

The proposals are due to be voted on by the Norwegian Storting by June 15. But opposition is also mounting within the parliament to allowing any drilling in the Skagerrak, about 50km off the southern Norwegian coast.

Environmentalists and fishermen have rallied support for their objections, despite the government's intention to restrict drilling to one well at a time and to bar drilling during the summer prawn harvest.

Opposition has been voiced from within the ranks of the minority ruling Labour party as well as by the chief opposition parties and the state pollution control authority.

Producers 'lose out' on futures

By Deborah Hargreaves

Commodity producers in third world countries are losing out from the roller-coaster ride on the world's futures markets and not seeing much benefit from higher prices, according to Mr Carl Greenidge, deputy secretary general of the African, Caribbean and Pacific group of countries.

Mr Greenidge is in London to lobby candidates in the forthcoming European parliamentary elections.

"We hope to press European countries to look more sympathetically at commodity protocols with economic clauses," he will tell a conference organised to the World Development Movement today.

"The markets that will allow the sort of chaos we've seen over the last five-to-six years are clearly not the sort of markets that will facilitate investment in industry or stable incomes for producers," he stresses.

The WDM, a third-world campaign organisation, has calculated that from a £1 chocolate bar, a cocoa farmer receives only 8p, whilst the UK Treasury eats up double that amount in taxes.

In addition, the movement says that EU tariffs imposed on third world producers discourage them from manufacturing finished products.

The Lomé Convention, a preferential trading agreement between the European Union and ACP countries is being reviewed this year and Mr Greenidge says there are some clauses that need tightening up.

He highlights the problems many African countries experience in repaying debts and calls for better returns for these countries from the basic commodities they sell.

"The unpredictability of the markets makes it impossible for producers to plan ahead in a sensible fashion," Mr Greenidge emphasises.

Gaviria accepts as 'fair' EU banana import plan

By Canute James in Kingston

Mr Cesar Gaviria, the president of Colombia, has said that the European Union's banana import regime is fair to both Latin American and Caribbean exporters, and that this was the reason for his government's acceptance of it despite continuing criticism from some Latin American producers.

"Colombia considered the Lomé Convention convenient and good, and understood why Caribbean countries had special access to the European market," Mr Gaviria told a radio station in Barbados.

"We wanted an agreement with the European Union in relation to bananas. That's why we accepted the EU proposal." Latin American producers had attacked the EU's import regime which allows duty free access for fruit from traditional suppliers in the Caribbean and other countries in the African, Caribbean and Pacific (ACP) group, while imposing duties on the quota granted Latin exporters.

The EU has proposed increasing Latin American imports from 2m tonnes per year to 2.1m tonnes this year, and to 2.2m tonnes next year.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1318-20	1346-9
Previous	1337.5-8.5	1367-8
High/low		1370/1340
AM Official	1335.5-6.0	1365.5-6.0
Kerb close		1343-4
Open int.	254,679	
Total daily turnover	55,478	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1335-45	1335-40
Previous	1350-60	1350-60
High/low	1340/1335	1363/1336
AM Official	1336-42	1350-5
Kerb close		1335-40
Open int.	3,471	
Total daily turnover	883	

■ LEAD ($ per tonne)

Close	500-1	517-8
Previous	508-9	523-4
High/low	502	525/517
AM Official	502-2.5	519.5-20.0
Kerb close		516-7
Open int.	36,593	
Total daily turnover	6,969	

■ NICKEL ($ per tonne)

Close	6110-20	6205-10
Previous	6230-40	6320-30
High/low	6262/6250	6370/6170
AM Official	6252-3	6345-50
Kerb close		6180-200
Open int.	58,157	
Total daily turnover	13,378	

■ TIN ($ per tonne)

Close	5505-15	5585-90
Previous	5620-5	5600-5
High/low	5530	5630/5590
AM Official	5530-30	5600-10
Kerb close		5550-60
Open int.	16,530	
Total daily turnover	5,402	

■ ZINC, special high grade ($ per tonne)

Close	954-5	980-1
Previous	957-8	983-4
High/low	955	983/978
AM Official	954.5-5.5	980-1
Kerb close		978-80
Open int.	105,200	
Total daily turnover	23,779	

■ COPPER, grade A ($ per tonne)

Close	2213-4	2227-8
Previous	2256-8	2266-8
High/low	2252	2265/2211
AM Official	2252-3	2262-3
Kerb close		2215-6
Open int.	213,699	
Total daily turnover	55,937	

■ LME AM Official £/$ rate: 1.5149
LME Closing £/$ rate: 1.5162
Spot 1.5175 3 mths 1.5153 6 mths 1.5140 9 mths 1.5129

■ HIGH GRADE COPPER (COMEX)

	Close	Day's change	High	Low	Open int	Vol
Jun	101.00	-2.95	102.25	101.00	1,544	351
Jul	101.00	-2.75	103.55	99.80	38,922	334
Aug	100.80	-2.50	102.40	100.50	391	32
Sep	100.85	-2.20	102.80	99.90	9,751	81
Oct	100.45	-2.20	-	-	228	-
Nov	100.25	-2.00	-	-	392	-
Total					62,609	900

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold (Troy oz.)	$ price	£ equiv.
Close	385.50-385.90	
Opening	387.50-387.90	
Morning fix	387.25	255.982
Afternoon fix	386.30	254.530
Day's High	387.80-388.20	
Day's Low	385.20-385.60	
Previous close	387.60-388.00	

Loco Ldn Mean Gold Lending Rates (Vs US$)
1 month ....4.00 6 months 4.45
2 months ....4.13 12 months 4.95
3 months 4.20

Silver Fix	p/troy oz.	US cts equiv.
Spot	365.90	554.25
3 months	370.70	560.60
6 months	375.25	566.90
1 year	387.45	584.20

Gold Coins	$ price	£ equiv.
Krugerrand	393-396	260-263
Maple Leaf	396.80-399.25	-
New Sovereign	91-94	60-63

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Open int	Vol
Jun	383.5	-3.6	386.1	381.5	6,158	5,348
Jul	384.4	-3.6	-	-	-	-
Aug	386.3	-3.7	391.0	383.5	77,491	24,556
Oct	388.4	-3.7	393.5	387.0	3,264	118
Dec	392.7	-3.7	397.0	390.0	24,282	409
Feb	395.2	-3.7	-	-	5,888	325
Total					148,143	31,139

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

Jul	400.4	-3.8	405.0	398.5	15,510	1,349
Oct	402.7	-3.8	407.5	400.5	4,389	311
Jan	404.8	-3.9	407.0	405.0	1,085	21
Apr	406.9	-3.7	406.5	408.0	1,073	2
Total					22,157	1,683

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

Jun	134.80	-1.55	137.50	133.50	258	168
Sep	134.80	-1.80	137.00	134.50	3,567	224
Dec	135.05	-1.80	137.30	135.50	748	10
Mar	135.05	-1.80	-	-	6	-
Total					4,599	400

■ SILVER COMEX (100 Troy oz.; Cents/troy oz.)

Jun	533.3	-19.7	-	-	2	2
Jul	535.0	-20.0	557.0	530.0	83,376	20,000
Aug	537.9	-20.0	-	-	-	-
Sep	539.7	-20.3	562.5	536.0	12,317	851
Dec	547.2	-20.7	570.0	542.0	17,682	1,214
Jan	548.9	-20.7	-	-	32	-
Total					128,273	22,876

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Jul	18.23	-0.08	18.32	18.19	118,445	42,074
Aug	17.88	-0.05	17.95	17.84	64,044	18,735
Sep	17.72	-0.05	17.80	17.69	25,632	6,659
Oct	17.62	-0.05	17.65	17.60	22,284	1,719
Nov	17.56	-0.06	17.64	17.56	15,887	1,315
Dec	17.52	-0.07	17.62	17.52	29,487	2,284
Total					421,628	74,846

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Open int	Vol
Jul	16.51	+0.00	16.56	16.37	63,650	16,476
Aug	16.46	+0.04	16.47	16.34	35,261	6,280
Sep	16.40	+0.03	16.41	16.30	13,890	1,445
Oct	16.36	+0.05	16.36	16.26	7,788	546
Nov	16.26	-0.04	16.30	16.25	5,318	105
Dec	16.30	+0.03	16.30	16.25	5,761	321
Total					136,128	25,034

■ HEATING OIL NYMEX (42,000 US galls; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Jul	49.35	-0.18	49.75	49.15	5,362	17,516
Aug	49.80	-0.24	50.15	49.70	52,882	24,461
Sep	50.70	-0.24	50.90	50.65	17,407	5,282
Oct	51.55	-0.29	51.70	51.55	12,006	2,664
Nov	52.40	-0.29	52.50	52.40	7,304	790
Dec	53.25	-0.29	53.45	53.15	5,181	145
Total					128,386	52,401

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jun	153.00	+2.00	153.25	152.25	27,442	5,169
Jul	154.25	+2.00	154.25	153.25	23,194	4,395
Aug	155.75	+2.00	156.00	154.75	8,075	808
Sep	157.75	+2.25	158.00	156.50	6,877	460
Oct	160.25	+2.00	160.25	158.50	6,762	180
Nov	162.25	+2.00	162.00	161.25	4,254	284
Total					83,763	12,059

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu.)

	Latest price	Day's change	High	Low	Open int	Vol
Jul	1.905	-0.017	1.915	1.882	28,374	10,588
Aug	1.990	-0.008	2.008	1.970	13,857	4,994
Sep	2.050	-0.001	2.060	2.031	12,272	2,032
Oct	2.118	+0.010	2.120	2.100	9,289	297
Nov	2.258	+0.008	2.210	2.195	10,887	1,126
Dec	2.320	+0.008	2.320	2.305	14,153	1,555
Total					128,628	22,930

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Open int	Vol
Jul	53.55	-0.04	53.65	53.05	4,551	18,936
Aug	53.20	+0.04	53.30	53.00	13,871	22,240
Sep	52.20	-0.18	52.40	52.20	18,911	5,031
Oct	50.60	-	50.80	50.60	10,806	1,689
Nov	49.50	-0.05	49.70	49.50	3,825	512
Dec	53.50	-0.05	53.80	53.50	2,700	38
Total					85,383	49,047

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jun	114.00	-0.25	114.00	114.00	577	32
Sep	98.60	-0.60	98.70	98.70	521	5
Nov	99.35	-0.50	99.50	99.30	1,670	94
Jan	101.30	-0.50	-	-	1,233	-
Mar	102.80	-0.45	102.90	102.70	358	3
May	104.45	-0.65	104.75	104.75	275	7
Total					4,832	141

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

Jul	339/0	+1/4	332/4	323/2	127,455	57,470
Sep	334/0	+0/2	337/4	329/0	38,990	9,170
Dec	345/0	-0/2	348/4	340/4	59,855	21,105
Mar	348/4	-0/6	351/0	344/0	6,820	885
May	340/4	-2/6	341/0	339/4	280	-
Jul	325/2	+2/4	327/0	320/4	930	235
Total					234,180	88,865

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

Jul	281/0	+2/2	285/0	274/4	575,630	156,910
Sep	275/4	+2/6	278/0	269/2	174,685	22,685
Dec	268/4	+2/2	271/0	263/0	431,095	76,475
Mar	273/6	+0/4	277/0	269/4	50,915	3,990
May	278/0	-	280/0	275/4	6,660	675
Jul	278/0	-1/4	281/4	275/0	14,290	3,790
Total					1,267M	267,459

■ BARLEY LCE (£ per tonne)

Sep	97.90	-0.50	-	-	170	-
Nov	99.00	-0.75	-	-	295	-
Jan	101.00	-0.30	-	-	30	-
Mar	102.85	-	-	-	10	-
May	104.75	-	-	-	4	-
Total					509	-

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

Jul	700/4	-0/4	707/0	692/0	289,880	152,185
Aug	699/6	-1/0	706/0	692/2	80,355	20,855
Sep	685/0	-0/6	691/0	679/0	45,725	4,185
Nov	673/6	-	680/0	667/0	283,995	61,130
Jan	678/0	-1/0	684/4	672/4	23,550	1,595
Mar	682/0	-0/4	687/0	678/4	9,760	435
Total					753,880	246,200

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

Jul	28.65	+0.29	28.83	28.10	27,324	110
Aug	28.58	+0.25	28.75	28.15	14,875	12,842
Sep	28.42	+0.27	28.53	28.05	10,393	3,575
Oct	27.80	+0.15	27.95	27.50	7,131	1,197
Dec	27.37	+0.15	27.55	27.05	19,778	347
Jan	27.20	+0.10	27.32	27.00	2,881	4,083
Total					85,108	22,343

■ SOYABEAN MEAL CBT (100 tons; $/ton)

Jul	202.3	-0.3	203.5	200.5	31,029	13,158
Aug	202.0	-0.6	203.4	200.5	16,942	5,065
Sep	201.3	-0.7	202.5	199.5	9,915	1,601
Oct	199.4	-0.7	200.7	197.8	5,870	782
Dec	198.3	-0.7	200.0	196.6	17,327	3,941
Jan	198.3	-1.0	200.0	196.7	1,739	42
Total					84,781	24,689

■ POTATOES LCE (£/tonne)

Jun	260.0	-	-	-	-	-
Nov	90.0	-	-	-	-	-
Mar	105.0	-	-	-	-	-
Apr	129.5	-2.3	132.0	129.0	681	45
May	140.0	-	-	-	-	-
Jun	107.5	-	-	-	-	-
Total					681	45

■ FREIGHT (BIFFEX) LCE ($10/index point)

Jun	1303	+19	1308	1285	770	42
Jul	1230	+20	1230	1215	946	40
Aug	1242	-	1245	1230	-	58
Oct	1308	+13	1310	1300	219	23
Jan	1331	+8	1330	1330	80	2
Apr	1350	+12	1360	1355	60	3
Total					2,474	168

	Close	Prev
BFI	1437	1455

Cotton
Liverpool- Spot and shipment sales amounted to 407 tonnes for the week ended 27 May, against 168 tonnes in the previous week. Improved demand brought moderate purchases, mainly in Tanzanian and American descriptions. West African growths made some headway.

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Open int	Vol
Jul	1011	-16	1030	1010	20,470	1,103
Sep	1031	-16	1049	1030	17,081	1,908
Dec	1050	-13	1068	1048	25,661	1,370
Mar	1069	-12	1087	1068	27,050	1,045
May	1081	-10	1090	1080	45	115
Jul	1090	-11	1090	1090	3,247	6
Total					112,760	5,716

■ COCOA CSCE (10 tonnes; $/tonnes)

Jul	1374	-14	1385	1358	34,354	6,039
Sep	1399	-15	1410	1383	21,627	3,717
Dec	1428	-20	1445	1416	9,185	238
Mar	1465	-15	1470	1450	9,388	197
May	1490	-22	1500	1500	3,165	2
Jul	1512	-22	-	-	2,561	-
Total					83,240	10,793

■ COCOA (ICCO) (SDR's/tonne)

May 31	Price	Prev. day
Daily	1054.85	1015.71
10 day average	N/A	N/A

■ COFFEE LCE ($/tonne)

Jul	2060	-57	2100	2044	12,480	1,395
Sep	2036	-56	2075	2020	15,099	2,474
Nov	2010	-38	2045	1990	6,516	771
Jan	1981	-43	2025	1980	6,543	128
Mar	1951	-36	1970	1950	2,440	38
May	1950	-168	1959	1959	13	5
Total					43,177	4,816

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

Jul	123.00	-3.00	125.20	120.60	21,773	5,779
Sep	120.80	-3.25	123.00	118.40	15,653	2,787
Dec	118.10	-2.70	120.50	116.50	11,783	958
Mar	115.95	-4.00	119.00	115.50	6,443	278
May	115.75	-2.75	117.25	115.00	686	7
Jul	115.75	-1.75	117.25	115.75	91	1
Total					56,466	9,811

■ COFFEE (ICO) (US cents/pound)

May 31	Price	Prev. day
Comp. daily	116.81	111.95
15 day average	114.34	113.28

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

Jul	12.43	+0.09	-	-	2,712	-
Oct	12.45	-	-	-	1,096	-
Jan	11.82	-	-	-	-	-
Mar	12.10	+0.02	-	-	60	-
Total					3,868	-

■ WHITE SUGAR LCE ($/tonne)

Aug	348.80	-0.50	349.30	348.00	12,865	396
Oct	326.50	+0.20	329.00	326.50	9,453	614
Dec	318.50	+0.70	318.00	318.00	700	49
Mar	317.20	+0.70	317.00	315.00	2,082	115
May	317.00	+0.70	-	-	205	-
Aug	319.00	-	-	-	235	-
Total					25,574	1,178

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

Jul	12.19	+0.15	12.20	11.97	42,952	9,006
Oct	12.21	+0.06	12.24	12.06	54,819	6,059
Mar	11.94	+0.03	11.96	11.82	23,965	2,345
May	11.91	+0.01	11.95	11.80	3,425	227
Jul	11.86	-	11.78	11.78	1,484	51
Oct	11.79	-	11.74	11.70	687	50
Total					127,369	17,740

■ COTTON NYCE (50,000lbs; cents/lbs)

Jul	81.72	-1.77	83.25	81.70	19,358	4,284
Oct	77.65	-0.70	78.55	77.60	5,980	597
Dec	76.08	-0.40	76.59	75.90	23,908	2,796
Mar	76.95	-0.43	77.45	76.88	2,970	126
May	77.50	-0.35	77.98	77.50	1,580	41
Jul	78.00	-0.33	78.25	78.00	275	25
Total					54,120	7,854

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

Jul	100.50	-1.35	101.35	99.75	12,405	2,982
Sep	103.60	-0.75	104.00	102.60	4,921	614
Nov	105.00	-0.50	105.00	104.00	1,356	15
Jan	105.90	-1.10	106.25	105.00	2,816	113
Mar	107.70	-0.30	107.70	106.50	1,052	101
May	109.70	-0.30	109.70	109.70	24	-
Total					22,578	3,826

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Jun 1	May 31	month ago	year ago
1974.3	1955.1	1855.6	1680.3

■ CRB Futures (Base: 4/9/56=100)

May 31	May 27	month ago	year ago
235.35	230.88	224.74	207.00

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Open int	Vol
Jun	64.775	-1.500	66.475	64.775	18,059	8,608
Aug	64.250	-1.500	66.000	64.250	23,374	7,466
Oct	67.325	-1.450	68.975	67.300	12,978	2,525
Dec	68.725	-1.200	70.200	68.500	9,344	1,369
Feb	69.450	-1.125	70.700	69.200	5,800	766
Apr	71.250	-0.675	72.100	70.650	2,830	232
Total					72,923	20,970

■ LIVE HOGS CME (40,000lbs; cents/lbs)

Jun	47.300	-0.300	47.825	47.225	7,751	1,509
Jul	46.950	-0.275	47.450	46.700	9,463	1,438
Aug	45.625	-0.725	46.350	45.300	5,221	832
Oct	42.950	-0.325	43.400	42.850	2,958	242
Dec	43.850	-0.175	44.000	43.525	2,930	281
Feb	44.000	-0.550	44.350	43.900	886	32
Total					29,671	4,463

■ PORK BELLIES CME (40,000lbs; cents/lbs)

Jul	40.975	-0.525	41.700	40.800	4,873	1,728
Aug	40.600	-0.750	41.500	40.300	2,823	1,348
Feb	49.875	-0.175	50.100	49.600	409	76
Mar	48.000	-0.250	49.750	49.000	35	5
May	51.125	-1.375	51.250	51.000	31	6
Jul	50.500	-0.500	51.000	50.500	11	7
Total					8,184	3,160

LONDON TRADED OPTIONS

Strike price $ tonne	— Calls —		— Puts —	
■ ALUMINIUM (99.7%) LME	Aug	Nov	Aug	Nov
1325	49	84	34	43
1375	27	58	61	67
1425	13	39	97	97
■ COPPER (Grade A) LME	Aug	Nov	Aug	Nov
2200	85	98	69	104
2250	62	77	95	132
2300	44	59	127	164
■ COFFEE LCE	Jul	Sep	Jul	Sep
2100	71	176	111	240
2150	54	159	144	273
2200	40	143	180	307
■ COCOA LCE	Jul	Sep	Jul	Sep
950	66	104	5	23
975	46	87	10	31
1000	30	72	19	41
■ BRENT CRUDE IPE	Jul	Aug	Jul	Aug
1550	102	-	4	23
1600	-	-	11	40
1650	34	51	33	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Jul)

		+or-
Dubai	$15.48-5.62w	+0.22
Brent Blend (dated)	$16.34-6.37	+0.145
Brent Blend (Jul)	$16.51-6.54	+0.165
W.T.I. (1pm est)	$18.27-8.28w	+0.225

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$187-188	+3.0
Gas Oil	$152-154	+2.0
Heavy Fuel Oil	$82-85	
Naphtha	$159-161	+0.5
Jet Fuel	$163-165	+2.0

Petroleum Argus Estimates

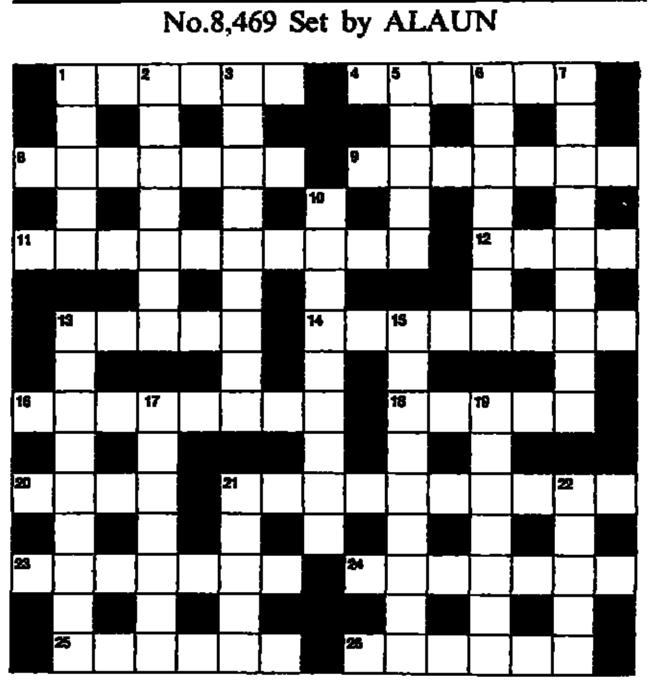
■ OTHER

Gold (per troy oz)♣	$385.70	-2.10
Silver (per troy oz)♣	540.50c	-19.00
Platinum (per troy oz.)	$401.90	+2.90
Palladium (per troy oz.)	$135.75	+1.25
Copper (US prod.)	107.00c	
Lead (US prod.)	35.00c	
Tin (Kuala Lumpur)	14.07m	-0.04
Tin (New York)	265.00c	-1.50
Zinc (US Prime W.)	Unq.	
Cattle (live weight)†	128.72p	+1.17*
Sheep (live weight)†♣	132.45p	-1.10*
Pigs (live weight)	86.78p	+0.52*
Lon. day sugar (raw)	$289.30	+6.60
Lon. day sugar (wte)	$358.50	+1.00
Tate & Lyle export	£303.00	+4.00
Barley (Eng. feed)	£104.50z	
Maize (US No3 Yellow)	$140.0	
Wheat (US Dark North)	£180.0	
Rubber (Jul)Ψ	72.25p	+0.75
Rubber (Aug)Ψ	72.50p	+0.75
Rubber(KL RSS No1 Jun)	255.00m	+1.50
Coconut Oil (Phil)§	$630.0z	-2.5
Palm Oil (Malay.)§	$515.0y	-2.5
Copra (Phil)§	$402.5y	
Soyabeans (US)	£200.0z	+6.0
Cotton Outlook A index	87.00c	+0.60
Wooltops (64s Super)	426p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. t Oct/Dec z Jun/Jul. y Jun. w Jul. Ψ London Physical. § CIF Rotterdam. ♣ Bullion market close. ♣ Sheep (Live weight prices). * Change on week, provisional prices.

CROSSWORD

No.8,469 Set by ALAUN



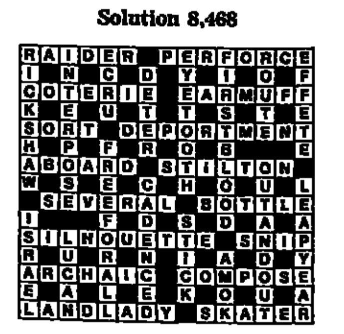
ACROSS

1 Also the rug comes in a bright red (6)
4 Imprison to silence (4,2)
8 Ran out and rushed the sick inside (7)
9 Can be seen, it seems (7)
11 A priest who's into clay-modelling? Exactly! (10)
12 Either way, is out to get variety (4)
13 Belts in men's wear (5)
14 Residing terribly close to where the fighting is (8)
16 Has nights of tossing and turning but doesn't give up (6,2)
18 Food chart (5)
20 With "cordial", you're getting close (4)
21 Finished the race after all (4,2,4)
23 Soft soap stone (7)
24 They're so painful it puts years on one going through them (7)
25 More moist than a wet blanket (6)
26 Certainly will dine out with the editor (6)

DOWN

1 In bed I quietly raise the subject (5)
2 The doctor left half the luscious squid (7)
3 People in general are, to them, fools (3,6)
5 With the softest of fodder all about, like a pig in clover? (5)
6 With difficulty, steer the vessel through the locks (7)
7 That's the name of the game! (9)
10 A bar counter (9)
13 Went round and inspired everybody (9)
15 As the nudist who's not busy has? (7,2)
17 Sing to a rhythm accompaniment that's monotonous (7)
19 Make both sides agree to have what's left (7)
21 Make a loss in a Mediterranean holiday resort (5)
22 Go shopping to while away the time? (5)

Solution 8,468



JOTTER PAD

LONDON STOCK EXCHANGE

MARKET REPORT

Inflation concerns bring a renewed downturn

By Terry Byland, UK Stock Market Editor

Inflation worries caught hold strongly on both sides of the Atlantic yesterday, prompting another savage setback in the UK equity market. Heavy losses in British government bonds increased the pressure on share prices, with the June futures contract on the FT-SE 100 Index again taking much of the strain.

The first hour of official trading saw the stock market edge higher, with the Footsie moving 15 points ahead as London responded to improvement on other European bourses. But when stock index futures failed to hold initial gains and UK bonds reacted to a reversal of fortune in German bonds, share prices began to fall steeply.

At the close the FT-SE 100 was down 38.6 at 2,931.9, virtually the lowest point of the session, following a final extinction of the last of two attempts to rally. The broader market followed suit, the FT-SE Mid 250 shedding 26.6 to 3,537.7 as profits were taken and share prices were marked lower.

Traders commented that while selling pressure in equities had not been heavy, the marketmakers had suffered severely from the renewed volatility in both gilts and equities. The Footsie 2,900 mark remained clearly at hazard in a stock market now a long way from the nearest support levels on the analysts' charts.

These charts show the market possibly unsupported above the Footsie 2,800 mark, a level still identified as a potential low point last weekend by Mr Nicholas Knight, international equity strategist at Nomura Research.

Howver, many analysts continued to maintain that equities should be bought at current levels. The first half of the session appeared to confirm that selling pressure is still light, although this was counterbalanced by renewed pressure in stock index futures, which have become the first forum for fund managers seeking to change stance in the stock market.

Volume in equities increased towards the close, when Wall Street was 13 Dow points lower in response to the sharp increase in the May prices index of the US National Association of Purchasing Managers. For the full session, Seaq volume in UK stocks reached 530.7m shares, against 505.2m on Tuesday when retail business dipped to £1.1bn.

There was some disappointment that the Bundesbank trimmed its weekly repo money market rate by only 5 basis points, although uncertainty was also fuelled by comments expressed by Bundesbank council members.

But the first blow to confidence came when bond markets turned off as news that German industrial output had risen sharply in May increased inflation concerns. UK markets reacted badly when the September long-dated gilt-edged futures fell below par. The further blow, from the US purchasing managers' report, hit UK gilts hard again and completed the rout in share prices.

The general weakness in equities overshadowed trading statements from several leading names. The market took a very bearish view of comments at the annual meeting of Kingfisher, the retail group with interests encompassing the Darty group in France and the Woolworth and Comet groups in the UK.

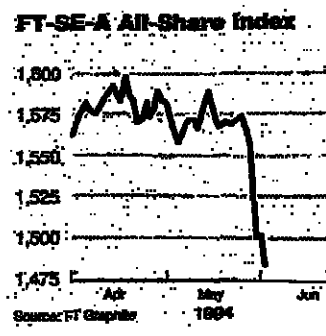
The UK stock market appeared highly nervous at the close and traders said that the near term direction must depend on developments in UK government bonds.

Account Dealing Dates

*First Dealings:	May 16	Jun 6	Jun 20
Option Declarations:	Jun 2	Jun 16	Jun 30
Last Dealings:	Jun 3	Jun 17	Jul 1
Account Day:	Jun 13	Jun 27	Jul 11

*New time dealings may take place from two business days earlier.

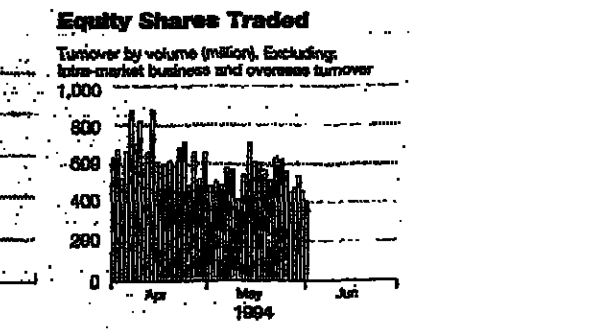
FT-SE-A All-Share Index



Source: FT Graphite

Equity Shares Traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



■ Key Indicators

Indices and ratios

FT-SE 100	2931.9	-38.6	FT Ordinary index	2321.2	-33.2
FT-SE Mid 250	3537.7	-26.6	FT-SE-A Non Fins p/e	19.04	(19.24)
FT-SE-A 350	1489.1	-17.8	FT-SE 100 Fut Jun	2908.0	-51.0
FT-SE-A All-Share	1484.63	-16.59	10 yr Gilt yield	8.84	(8.77)
FT-SE-A All-Share yield	3.96	(3.91)	Long gilt/equity yld ratio:	2.29	(2.27)

Best performing sectors

1 Water ... +0.4
2 Health Care ... +0.3
3 Engineering, Vehicles ... +0.1
4 Merchant Banks ... -0.1
5 Life Assurance ... -0.1

Worst performing sectors

1 Electronic & Elec Eqpt ... -2.7
2 Telecommunications ... -2.3
3 Gas Distribution ... -2.0
4 Retailers, General ... -2.0
5 Electricity ... -1.9

Water sector alert

Water shares outpaced the rest of the utilities as dealers picked up whispers that the indicative "K factors" passed by Ofwat, the industry regulator, to the water companies three weeks ago may be more generous than originally feared.

The "K factor" is the amount by which Ofwat allows water companies to raise prices every year, over and above inflation. Fears that the regulator might impose negative factors on some water companies lay behind steep falls in water shares earlier this year.

Although the K factors passed to the companies are strictly confidential, market rumours have suggested that there will be be no negative K factors and that the overall range will be from zero to 4 per cent. This would be better than the market had been expecting, and would compare favourably with the treatment meted out to British Gas, which was given an inflation minus 5 points formula, and BT, which has to work under an inflation minus 7.5 points formula. After consultations with the individual water companies, Ofwat will announce its final decision on K factors on July 28.

The rumours triggered keen demand for many of the water stocks, with South West leading the sector and closing a net 8 higher at 508p. Anglian, 475p, Southern, 512p, and Wessex, 495p, rose 5 apiece, while North West edged up 2 to 497p, as did Severn Trent, to 497p. Yorkshire put on 5 at 495p ahead of today's preliminary figures.

Kingfisher weaker

Retailing conglomerate Kingfisher suffered a volatile day's trading, ending the session sharply lower as a cautious agm statement was compounded by renewed worries over a potentially acute stock overhang.

Dealers said the fear that some shareholders in Darty, the French electrical retailer bought by Kingfisher last year, might exercise their option from tomorrow to sell some 20m Kingfisher shares had hit the stock in afternoon trading. "No one wants to chase the stock if a few million shares are about to come into the market," commented one seasoned trader.

Having started the session weak, Kingfisher shares rallied as the agm unfolded, with the market cheered by positive news on gross margins. However, subsequent revelations over sluggish sales growth and cautious comments from the chairman renewed the pressure and the shares continued to slide. They eventually closed 21 down at 522p after 2.3m traded.

Granada advances

Shares in Granada firmed 10 to 501p after unveiling results at the top end of market expectations. Profits came in at £103m, a jump of 51 per cent, with turnover up from £640.2m to £941.4m.

Granada shares have been a weak feature in recent sessions as rumours in the market suggested merger problems with LWT. Yesterday the stock's supporters were quick to point out the £4.7m contribution among the 64 per cent rise in television profits. Smith New Court and NatWest Securities both reiterated their buy recommendations.

A number of prominent retail stocks weakened in the face of a couple of large programme trades. Among these, Great Universal Stores slid 20 to 559p, W.H. Smith "A" 10 to 465p and Marks and Spencer 11½ to 380p. Rank Organisation receded 19 to 359p.

Hoare Govett reiterated its positive stance on MFI ahead of preliminary results due shortly. The shares hardened a penny to 156p. Laundry group Sketchley moved forward 5 to 110p after good results, boosted by the first contribution from Supasnaps, bought in April last year.

There was an element of disappointment in the market with the 13.7 per cent increase in Northern Ireland Electricity's dividend total. Some of the utilities sector's super-optimists were said to have been looking for an increase in the region of 15 to 16 per cent, a figure which would match potential increases by the regional electricity companies. Switching from Northern Ireland to the "recs" left the former 19 lower at 222p.

The building sectors of the market were hit by the general pessimism on domestic interest rates, which many analysts expect to move up later this year.

There were very few pockets of resistance in the housebuilders/contractors, where Bryant Group dipped 3 to 147p, Wimpey 5 to 165p, John Laing "A" 6 to 292p and Persimmon the same amount to 250p.

CAMAS, the demerged construction materials division of English China Clays, began trading at 73p and gradually improved to end the session at 76p. English China Clays, whose shareholders were given one CAMAS share for every English China held, commenced trading in ex-CAMAS form at 355p and settled at 360p.

Wolseley, the builders merchant group, was undermined by news of a placing of around 7.4m new shares at 748p a share to fund the purchase of US photographic equipment group Calumet for £28m.

Brewers were generally firm as bargain hunting was encouraged with some broker recommendations. Bass, up a penny at 519p, and recommended by SG Warburg on Tuesday, was reported to be also tipped by Hoare Govett, the broker advising a switch out of Guinness, down 5 at 472p. Having held up well on Tuesday, Grand Metropolitan retreated 14 to 425p. Elsewhere, Whitbread gained 5 to 519p and Scottish and Newcastle a penny to 515p.

Engineering group Siebe gave up the previous day's advance to close 9 lower at 547p in volume of 1.8m in nervous trading ahead of today's figures.

NatWest Securities urged investors to look closely at the margins in the controls division when the figures are published. The engineers team at the securities house said: "However good the 1994 results due and however well supported the shares seem to be on fundamentals, the scope for share price outperformance will be dictated by how well Siebe's controls margins responds." NatWest expects full year profits for the year to March 1994 to be £212.5m.

A stock overhang was reported in British Aerospace where the shares gave up 6 to 455p. Powell Duffryn which reports figures today, closed 12 down at 621p.

Worries about increasing competition in the bread market weakened Tomkins, owner of food manufacturer RHM. The shares relinquished 7 to 214p in trade of 1.8m.

MARKET REPORTERS:
Christopher Price,
Steve Thompson,
Joel Kibazo.

■ Other statistics, Page 20

NEW HIGHS AND LOWS FOR 1994

NEW HIGHS (18).
BANKS (3) BUILDING & CNSTRN (1) Dunton, BLDG MATLS & MCHTS (1) Halstead (J), ELECTRNC & ELECT EQUP (2) Fujitsu, NEC, ENGINEERING (1) Excalibur, EXTRACTIVE INDS (4) INVESTMENT TRUSTS (1) OIL EXPLORATION & PROD (2) OTHER FINANCIAL (1) TEXTILES & APPAREL (1) Toray, AMERICANS (2).
NEW LOWS (303).
GILTS (61) OTHER FIXED INTEREST (1) BANKS (6) BREWERIES (4) Fuller STA, Greenalls, Scottish & Newcastle, Vaux, BUILDING & CNSTRN (7) AMEC, Amco, Berkeley, Laing (J) A NV, Persimmon, VHE, Wilson Bowden, BLDG MATLS & MCHTS (16) CHEMICALS (2) AGA, Camentone, DISTRIBUTORS (6) DIVERSIFIED INDLS (3) ELECTRICITY (1) South Wales, ELECTRNC & ELECT EQUP (3) Johnson, Kenwood, Scantronic, ENGINEERING (9) Brit Aeror 7.75p Prf., Cook (W), IMI, Metalrax, Morgan Crucible, Do 7¾pc Prf., Prospect, Quadramatic, Whessoe, EXTRACTIVE INDS (1) FOOD MANUF (7) Assoc. Brit. Foods, BSN, Cadbury Schweppes, Dalgety, Dawo Intl., Hazlewood, United Biscuits, GAS DISTRIBUTION (1) British Gas, HEALTH CARE (4) HOUSEHOLD GOODS (4) Alsprung, Joyes, Lilliput, Stonenight, INSURANCE (13) INVESTMENT TRUSTS (58) INVESTMENT COMPANIES (7) LEISURE & HOTELS (3) Forte, Rank Org., Do 8¼p Prf., LIFE ASSURANCE (8) MEDIA (6) Flextech, Pearson, Reed Intl, SelecTV, Trinity Intl., United News., MERCHANT BANKS (2) OIL EXPLORATION & PROD (2) OIL, INTEGRATED (2) OTHER FINANCIAL (9) OTHER SERVS & BUSNS (2) Cape Range, Rodime, PHARMACEUTICALS (1) Zeneca, PRTNG, PAPER & PACKG (4) Clondalkin, Jarvis Porter, Lawson Mardon, SCA B, PROPERTY (16) RETAILERS, FOOD (3) ASDA, Iceland, Kwik Save, RETAILERS, GENERAL (10) SPIRITS, WINES & CIDERS (1) Grand Met., SUPPORT SERVS (7) TELECOMMUNICATIONS (3) BT, Cable & Wireless, Do 7pc Cnv. 2008, TEXTILES & APPAREL (4) Readicut, Richards, SEET, Sherwood, TOBACCO (1) TRANSPORT (3) BAA, Mersey Docks & Harbour, P & O 5½pc Prf., AMERICANS (5) CANADIANS (4).

EQUITY FUTURES AND OPTIONS TRADING

Worries on inflation sent bonds tumbling and led to another sharp setback in stock index futures, *writes Joel Kibazo*.

The firm opening of the June contract on the FT-SE 100 at 2,970 was described by traders as follow-through buying after the late recovery towards the close of business on Tuesday. The improvement in European bond markets also did much to boost sentiment in the first hour of trading.

However, the decline in German bonds following worse than anticipated output figures brought a reversal in the fortunes of June, and the contract came under heavy selling pressure, pulling the underlying cash market lower.

A brief respite over the lunch time period was undermined by the release of US purchasing managers' data. This led to renewed selling and the contract fell to the day's low of 2,899. At one point June was trading at a discount of 30 points to cash.

June ended at 2,908, down 51 from its previous close and around 27 points below its fair value premium to cash of about minus 3 points. Volume was 18,278 lots.

Turnover in traded options improved to 36,389 contracts, with most of the sector's activity concentrated in the index options. The FT-SE 100 option saw business of 18,189 lots and the Euro FT-SE 7,433 lots. Marks and Spencer was the most active stock option, with 1,417 contracts dealt.

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	2970.0	2908.0	-51.0	2974.0	2899.0	18278	50195
Sep	2978.0	2920.5	-51.0	2980.0	2918.0	836	9705
Dec	-	2926.0	-53.5	-	-	0	251

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	3545.0	3518.0	-27.0	3545.0	3545.0	13	3737
Sep	3560.0	3533.0	-27.0	3560.0	3560.0	13	908

■ FT-SE MID 250 INDEX FUTURES (OMLX) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	3517.5	-	-	-	-	771

All open interest figures are for previous day. † Exact volume shown.

■ FT-SE 100 INDEX OPTION (LIFFE) (*2932) £10 per full index point

	2750 C	2750 P	2800 C	2800 P	2850 C	2850 P	2900 C	2900 P	2950 C	2950 P	3000 C	3000 P	3050 C	3050 P	3100 C	3100 P
Jun	183	9	133	15½	83	27	52	45½	28	73½	13½	109½	6	153½	2	200½
Jul	187	24	150	36	115	52	87	74	61	99	41	130	28	167	17½	208
Aug	207½	39½	171½	53½	137½	70½	109½	88½	81½	113½	58½	142½	41½	176½	27½	213½
Sep	214	51½	179	64	148½	81½	121	101	98	127½	75½	158	56½	190½	43½	227
Dec†			220½	84			182	135			116	167½			77	246½

Calls 5,759 Puts 12,583

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

■ EURO STYLE FT-SE MID 250 INDEX OPTION (OMLX) £10 per full index point

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
ASDA Group†	5,200	50¼	-1¼
Abbey National†	5,000	385	+4
Albert Fisher	429	54	
Allied-Lyons†	2,000	574	-4
Anglian Water	1,200	476	+5
Argos	1,300	353	-8
Argyll Group†	4,100	231	-8
Arjo Wiggins†	2,100	270	-4

LONDON EQUITIES

LIFFE EQUITY OPTIONS

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	0	60	12
Other Fixed Interest	1	2	12
Mineral Extraction	45	73	83
General Manufacturers	52	241	371
Consumer Goods	18	72	101
Services	41	170	301
Utilities	12	25	9
Financials	35	152	189
Investment Trusts	35	139	296
Others	14	83	33
Totals	253	1,017	1407

Data based on those companies listed on the London Share Service.

TRADITIONAL OPTIONS

First Dealings	May 23	Last Declarations	Sept. 1
Last Dealings	June 10	For settlement	Sept. 12

Calls: Asda, BP, Channel Hldgs., Microfocus, RTZ, Tullow Oil Put: Danka Bus. Systems Puts & Calls: Channel Hldgs., Hanson Wts., Intercare.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1994 High	1994 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
100	F.P.	43.3	108	100	Automotive Precs	106		LN4.0	0.8	4.7	35.0

RIGHTS OFFERS

FINANCIAL TIMES EQUITY INDICES

FT GOLD MINES INDEX

FT-SE Actuaries Share Indices — The UK Series

■ Hourly movements

■ FT-SE Actuaries 350 Industry baskets

BANKS

	Notes	Price	+ or -	1994 high	low	Mkt Cap£m	Yld Gr's	P/E
ABN Amro Fl		£21½	-½	£26½	£21⅞	6,313	5.2	♦
ANZ A$		207¾	-2	278¾	207¼	2,762	4.4	16.3
Abbey National	N□	395	+4	523	381	5,182	4.4	13.3
Allied Irish I£	♣N□	241	-2	314	241	1,588	5.2	9.3
Anglo Irish I£	MN□	62	+1	*70	51	178.9	8.5	9.3
Asahi Y		739¼	-8¼	761¼	628	16,856	0.6	♦
Banco Bil Viz Pta		£15⅞	-⅛	£18¼	£14⅞	3,654	5.2	7.1
Banco Sant Pta		£30⅞	—	£34⅜	£29⅞	3,368	4.5	♦
Bk Ireland I£	♣□	255xd	-1	*319	246	1,202	4.9	♦
Bank Scotland	♣N□	174½xd	-1½	247	172½	2,032	3.8	14.3
9¼pc Pf		114½	-¾	141½	114½	114.6	10.1	–
9¾pc Pf		119¾	-¾	148½	119¾	119.8	10.2	–
Barclays	♣N□	500	-5	649	487	8,135	3.8	20.7
Dai Ichi Kan Y		£12⅞	-⅞	£12⅞	£10⅞	38,815	0.4	69.0
Deutsche DM		£285⅞	-1½	£344¼	£294⅞	14,074	2.1	–
Espirito Santo		£18⅞	-¼	£26⅞	£18¼	208.2	4.1	4.6
First Nat Fin	N□	73	—	*90	60	121.0	2.6	–
6.3pc Cv Pf		83	—	*90	77	6.58	9.5	–
7pc Cv Pf		145	—	171	123	69.8	6.0	–
Fuji Bank Y		1503¼	-25¾	1549¼	1152½	43,542	0.4	♦
HSBC HK	N□	737	-16	1133	687	12,941	4.0	12.7
HSBC (75p Shs)	N□	713xd	-13	1113	668	6,032	4.1	12.3
Lloyds	N□	530	-6	680	530	6,837	5.2	11.2
Mitsubishi Y		£17⅞	-⅞	£18⅞	£15⅞	50,242	0.3	♦
Mits Tst & Bk Y		1086½	+18¾	1082¾	687½	14,148	0.5	17.4
Mitsui Tst & Bk Y		837¾	+¼	841¼	514	10,037	0.6	28.5
Nat Aust A$	†	577½	+1¼	620¼	537¾	7,704	4.2	13.7
NatWest	N□	424	-3	622	421	7,055	5.5	9.7
Ottomana FFr		£23½	—	£33	£23½	117.5	6.2	♦
Ryl Bk Scotland	♣†N□	405xd	-5	528	382½	3,227	3.7	18.3
Sakura Y		£9⅞	-⅛	£9⅞	£8¼	30,797	0.6	58.0
Sanwa Y		£14½	+½	£15⅞	£11⅞	42,020	0.4	♦
Standard Chartd	N□	229xd	-11	*358¼	223	2,200	3.3	10.0
7 3/8pc Prf		89½	-¾	108½	89½	88.5	10.3	–
Sumitomo Y		£13⅞	-⅞	£18¼	£11½	43,917	0.4	30.1
Sumitomo Tst Y		1087½	+15¾	1067½	625	13,279	0.5	♦
TSB	N□	208	-1	291	202½	3,151	4.7	14.1
Tokai Y		£8⅞	—	£8⅞	£6⅞	17,654	0.6	58.2
Toyo Tst & Bk Y		803	+28¾	803	586¼	6,311	0.6	71.6
Westpac A$		226	+3	280	207	3,962	2.4	♦
Yasuda Tst Bk Y	‡	607¾	+13¾	634¾	442	8,704	0.8	54.2

BREWERIES

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD MANUFACTURERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MERCHANT BANKS

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER SERVICES & BUSINESSES

[illegible]

PHARMACEUTICALS

[illegible]

PRINTING, PAPER & PACKAGING

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

SPIRITS, WINES & CIDERS

[illegible]

SUPPORT SERVICES

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Cont.

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	+ or -	1994 high	1994 low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£28½	—	£28½	£13½	1,882	2.8	19.4
Barlow		£5⅞	+⅛	£5⅞	£3⅞	1,018	6.3	9.4
Gold Flds Prop R		108	-1	105	76	10.2	10.0	8.9
NK Props	s	90	—	95	87	3.82	9.9	37.0
SASOL		344	+5	362	280	1,949	4.5	—
SA Brews		£13⅞xd	-⅛	£15⅞	£10	7,264	2.0	22.2
Tiger Oats	†	889	—	898	539	1,033	2.3	14.4
Tongaat-Hulett	†	859	-3	882	434	483.2	2.3	18.4

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ☐ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- • Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Figures or report awaited
- Not officially UK listed; dealings permitted under rule 535(4)(a)
- Free annual/interim report available, see details below.
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- Not officially UK listed; dealings permitted under Rule 535(2)
- Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1994
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Figures based on IMR 'Headline Earnings'
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualise yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xk ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1225 a year for each security shown, subject to the Editor's discretion

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FT Cityline

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An international service is available for callers outside the UK, annual subscription £250 stg.

Call 071-873 4378 (+44 71 873 4378, International) for more information on FT Cityline.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

AUTHORISED UNIT TRUSTS

Mercury Fund Managers Ltd (1000)H

33 King William St, EC4R 9AS Dealing 071-280 2860

	Init Chrge	Bid Price	Offer Price	+ or -	Yield Gr's
American	6	198.8	211.3	+0.59	0.00
(Accum Units)	5	212.5	225.8	+0.60	0.00
American Opps	6	87.31	93.15	+0.32	0.00
(Accum Units)	6	88.41	94.30	+0.32	0.00
British Blue Chip	5	73.80	78.78	+0.75	3.20
(Accum Units)	5	88.40	95.38	+0.60	3.20
Cash *	0	100.5	100.5	+0.10	4.73
(Accum Units *)	0	134.4	134.4	+0.10	4.73
Emerging Markets	5¼	121.5	131.3	-0.10	0.00
(Accum Units)	5¼	122.1	131.8	-0.10	0.00
European Growth	5	244.2	259.7	-1.60	0.62
(Accum Units)	5	262.9	279.5	-1.20	0.62
European Income	5	80.76	85.85	-0.50	2.75
(Accum Units)	5	109.7	116.1	-0.60	2.75
General	5	480.5	512.6	+3.50	2.38
(Accum Units)	5	930.9	990.0	+6.80	2.38
Global Bond	5	120.6	128.7	-0.90	6.29
(Accum Units)	5	141.9	149.2	-1.00	6.29

Pilgrim Unit Trust Mngmt Ltd (0830)F

30 Pilgrim Street, Newcastle upon Tyne NE1 6RD

Administration & Dealing: Unit Trust Accounting & Management Ltd

1 White Hart Yard, London SE1 1NX 071-407 5966

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
American	6	98.98	100.86	107.29	-0.10	–
European	6	69.79	69.85	74.34	-1.01	0.00
Global	6	68.60	68.19	72.54	+0.43	–
Pacific	6	67.86	69.01	73.41	+0.15	0.00
UK Income & Growth	6	62.06	63.66	67.72	-0.65	2.04
UK Inc & Grwth Acc	6	66.95	68.69	73.07	-0.7	2.02

Pointon York UT Mngrs (0800)F

The Crescent, King St, Leicester LE1 6RX 0533 550540

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
BRI Director Dealings	5½	96.09	98.28	103.71	-0.6	–

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (✠) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (▲) - 1401 to 1700 hours; (#) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Thornton Unit Managers Ltd (1200)F

Abbey Life Assurance Co Ltd

Canada Life Group

Eurolife Assurance Company Ltd

Family Assurance Friendly Society Ltd

Homeowners Friendly Society Limited - Contd.

M & G Life and M & G Pensions - Contd.

National Westminster Life Assce Ltd - Contd.

Prudential Corporate Pension Funds - Contd.

Prudential Individual Life Funds

Prudential Individual Pension Funds

OTHER UK UNIT TRUSTS

INSURANCES

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OFFSHORE INSURANCES

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

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● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MARKETS REPORT

Focus on Futures

Foreign exchanges yesterday again played second fiddle to interest rate markets where prices fell across the yield curve, *writes Philip Gawith.*

Trade in euromark and short sterling futures was robust and prices very volatile. The December sterling contract closed at 93.49 from 93.59, while the equivalent euromark future fell by six basis points to 94.81. Movements in the back month contracts were even more dramatic.

Bond market weakness spilled over into some of the Scandinavian currencies, with both the Danish and Swedish crowns weakening, apparently on the back of bond sales by foreigners.

Elsewhere, the dollar continued its recent pattern of range-bound trading, paying little attention to economic data released. It closed in London at DM1.6428 against the dollar from DM1.6435. Against the yen it closed at Y104.650 from Y104.655.

Strong first quarter GDP figures boosted the Australian dollar, which rose to a 21 month high against the US dollar, finishing at $0.7407 from $0.7383.

Sterling finished the day firmer, closing at DM2.4922 against the D-Mark from DM2.4846. Against the dollar it finished at $1.5171 from $1.5118.

The Belgian central bank cut its key central rate to 5.2 per cent from 5.25 per cent.

■ The mood in the interest rate futures markets was again very gloomy. One analyst said the market seemed "determined to creep towards some sort of financial Armageddon."

The pattern was again set at the long end of the market, with bunds feeding into gilts, which then spilled over into short sterling. Some of the back month (longer) contracts have now lost a full percentage point in the past week.

The market actually started firmer, but then started to lose ground once the German repo announcement - the rate was cut by five basis points to 5.15 per cent - came through. Expectations of a cut as large as ten basis points had built up in advance of the announcement, so there was some disappointment in the market.

Analysts said there appeared to be tremendous value at current levels, but there was no buying interest. It was difficult to persuade clients to buy when prices seemed, inexorably, cheaper the following day.

Volumes were fairly large, with December short sterling trading 40,000 lots, and December euromark nearly 51,000 lots.

■ The dollar was unaffected by the release of the May purchasing managers index which was steady at 57.7, although the price component rose to 71.5 from 63.2 in April.

Analysts said the dollar would stay in its recent narrow trading range of DM1.6390 - DM1.6480 until the release tomorrow of the non-farm payroll figures. Mr Ian Gunner, international economist at Chase Manhattan in London, said "expectations about the US economy are so solidly in place that it is difficult for a set of figures to make much impact."

The dollar managed to resist some potentially negative comments from two Bundesbank council members. Although Mr Guntram Palm said there was still room for movement on the repo rate, he also added that "At the current time it would appear that a stopping point, if not a turning point, is in sight for interest rate policy."

Mr Olaf Sievert, meanwhile, head of the regional central bank for Saxony and Thuringia, effectively discounted the prospect of imminent Bundesbank intervention to support the dollar.

"The Bundesbank is not at the ready, waiting to intervene in the market at a dollar rate of DM1.64...All rates in the region of DM1.70 or DM1.65 are not a problem for us...." he said.

■ In Europe the Danish krone closed at DKr3.929 against the D-Mark, down from DM3.9160 on May 30. The Swedish krona also fell, closing at SKr4.78 from SKr4.68 on May 30.

Mr Avinash Persaud, head of currency research at JP Morgan (Europe) said the weakening of these currencies was driven by foreign investors selling bonds. One possible explanation for the trend is that markets are suffering from greater competition for banks' funds, with more money diverted, for example, into corporate lending.

The JP Morgan analyst said the reason the Scandinavian currencies had been particularly affected was that both were fairly exposed to international investors, and less liquid than some other markets.

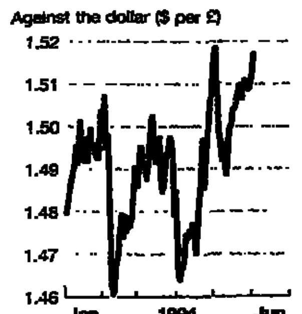
Mr Persaud said international investors were also concerned that governments faced with elections would not be able to administer the sort of fiscal medicine their economies required. He predicted that other countries like Spain and France, faced with a similar confluence of events, might also experience currency weakness in future.

■ The Bank of England provided late assistance of £35m to UK money markets after forecasting a £350m shortage. Overnight money moved between 4 per cent and 6 per cent.

German call money fell back to 5.15/5.25 per cent from 5.75/5.95 per cent on Tuesday.

Sterling

Against the dollar ($ per £)



Source: Datastream

■ **Pound in New York**

Jun 1	—Latest—	—Prev. close—
£ spot	1.5185	1.5105
1 mth	1.5178	1.5096
3 mth	1.5162	1.5082
1 yr	1.5115	1.5040

■ **OTHER CURRENCIES**

Jun 1	£	$
Hungary	155.775 - 155.988	102.700 - 102.800
Iran	2638.00 - 2645.00	1748.00 - 1750.00
Kuwait	0.4508 - 0.4519	0.2973 - 0.2978
Poland	34052.1 - 34111.1	22450.0 - 22480.0
Russia	2900.69 - 2909.79	1912.00 - 1918.00
U.A.E.	5.5682 - 5.5805	3.6715 - 3.6735

POUND SPOT FORWARD AGAINST THE POUND

Jun 1		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. index
Europe													
Austria	(Sch)	17.5339	+0.0543	266 - 411	17.5487	17.4574	17.5301	0.3	17.5245	0.2	-	-	114.2
Belgium	(BFr)	51.3182	+0.2323	860 - 503	51.4250	51.1720	51.3332	-0.4	51.3432	-0.2	51.1832	0.3	115.4
Denmark	(DKr)	9.7920	+0.0434	885 - 954	9.8006	9.7544	9.7998	-1.0	9.8125	-0.8	9.8136	-0.2	115.4
Finland	(FM)	8.2794	+0.0555	702 - 885	8.2920	8.2120	-	-	-	-	-	-	80.8
France	(FFr)	8.5208	+0.0255	168 - 248	8.5318	8.4924	8.5252	-0.6	8.5293	-0.4	8.4973	0.3	108.5
Germany	(DM)	2.4922	+0.0076	913 - 931	2.5014	2.4845	2.4926	-0.2	2.4926	-0.1	2.4734	0.8	124.1
Greece	(Dr)	370.552	+4.406	796 - 308	371.308	367.412	-	-	-	-	-	-	-
Ireland	(I£)	1.0251	+0.0031	242 - 260	1.0260	1.0219	1.0256	-0.6	1.0268	-0.7	1.0286	-0.3	104.1
Italy	(L)	2415.99	+10.04	475 - 722	2418.83	2401.61	2421.59	-2.8	2431.04	-2.5	2462.89	-1.9	77.8
Luxembourg	(LFr)	51.3182	+0.2323	860 - 503	51.4250	51.1720	51.3332	-0.4	51.3432	-0.2	51.1832	0.3	115.4
Netherlands	(Fl)	2.7941	+0.0074	927 - 954	2.7992	2.7857	2.7936	0.1	2.7947	-0.1	2.7722	0.8	119.3
Norway	(NKr)	10.8133	+0.0321	096 - 169	10.8318	10.7709	10.8076	0.6	10.8202	-0.3	10.8113	0.0	85.9
Portugal	(Es)	258.893	+1.063	614 - 172	259.226	258.275	259.868	-4.5	261.813	-4.5	-	-	-
Spain	(Pta)	205.613	+0.657	496 - 729	205.839	205.065	206.118	-2.9	206.998	-2.7	209.503	-1.9	85.1
Sweden	(SKr)	11.9326	+0.151	245 - 406	11.9462	11.7778	11.9556	-2.3	11.9906	-1.9	12.0886	-1.3	75.1
Switzerland	(SFr)	2.1218	+0.0015	208 - 228	2.1256	2.1171	2.1204	0.8	2.1167	1.0	2.0877	1.6	118.0
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	80.3
Ecu	-	1.2945	+0.0036	940 - 950	1.2964	1.2898	1.2961	-1.5	1.2918	0.8	1.291	0.3	-
SDR†	-	0.938505	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5142	+0.0052	138 - 145	1.5167	1.5066	-	-	-	-	-	-	-
Brazil	(Cr)	2894.79	+59.81	420 - 538	2900.00	2831.00	-	-	-	-	-	-	-
Canada	(C$)	2.1035	+0.0075	027 - 043	2.1071	2.0864	2.1052	-1.0	2.109	-1.0	2.1275	-1.1	86.5
Mexico	(New Peso)	5.0368	+0.0132	282 - 454	5.0454	5.0191	-	-	-	-	-	-	-
USA	($)	1.5171	+0.0053	168 - 174	1.5188	1.5095	1.5162	0.7	1.5149	0.6	1.5106	0.4	65.3
Pacific/Middle East/Africa													
Australia	(A$)	2.0483	+0.0005	472 - 494	2.0536	2.0425	2.0478	0.4	2.046	0.4	2.0451	0.2	-
Hong Kong	(HK$)	11.7204	+0.0408	173 - 234	11.7397	11.6639	11.7123	0.8	11.7084	0.4	11.7354	-0.1	-
India	(Rs)	47.6009	+0.1773	858 - 160	47.6770	47.3570	-	-	-	-	-	-	-
Japan	(Y)	158.765	+0.552	657 - 872	159.270	158.050	158.345	3.2	157.555	3.0	153.39	3.4	183.6
Malaysia	(M$)	3.9122	+0.0131	106 - 137	3.9170	2.8938	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.5534	+0.0107	514 - 554	2.5554	2.5443	2.5527	0.3	2.5562	-0.4	2.5628	-0.4	-
Philippines	(Peso)	40.8101	+0.1439	986 - 215	41.1215	40.4986	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.6899	+0.0205	880 - 918	5.6989	5.6612	-	-	-	-	-	-	-
Singapore	(S$)	2.3242	+0.0064	230 - 254	2.3274	2.3168	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.5158	+0.0273	136 - 180	5.5241	5.4807	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	7.2669	+0.086	503 - 835	7.2835	7.1976	-	-	-	-	-	-	-
South Korea	(Won)	1223.01	+4.69	269 - 333	1225.03	1216.66	-	-	-	-	-	-	-
Taiwan	(T$)	41.0736	+0.1732	613 - 859	41.1400	40.8500	-	-	-	-	-	-	-
Thailand	(Bt)	38.2689	+0.1728	537 - 840	38.3220	38.0540	-	-	-	-	-	-	-

†SDR rate for May 31. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100.Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jun 1		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P Morgan index
Europe													
Austria	(Sch)	11.5575	-0.005	550 - 600	11.5950	11.5455	11.585	-0.8	11.5685	-0.4	11.4933	0.6	103.4
Belgium	(BFr)	33.8265	+0.034	120 - 410	34.0000	33.7950	33.8565	-1.1	33.9015	-0.9	33.8665	-0.1	104.8
Denmark	(DKr)	6.4544	+0.0058	534 - 554	6.4700	6.4496	6.4634	-1.7	6.4774	-1.4	6.4944	-0.6	104.2
Finland	(FM)	5.4574	+0.0174	524 - 623	5.4631	5.4330	5.4614	-0.9	5.4699	-0.9	5.4859	-0.5	75.8
France	(FFr)	5.6165	-0.003	150 - 180	5.6330	5.6122	5.6227	-1.3	5.6315	-1.1	5.6048	0.2	104.9
Germany	(D)	1.6428	-0.0007	425 - 430	1.6489	1.6408	1.644	-0.9	1.6452	-0.6	1.6373	0.3	105.4
Greece	(Dr)	244.250	+2.05	800 - 700	244.700	243.600	245.6	-6.6	246.45	-3.6	248.75	-1.8	70.4
Ireland	(I£)	1.4799	+0.0006	789 - 809	1.4826	1.4757	1.4733	1.3	1.4754	1.2	1.4688	0.8	-
Italy	(L)	1592.50	+1	200 - 300	1594.90	1590.13	1636.95	-3.4	1605	-3.1	1631	-2.4	78.3
Luxembourg	(LFr)	33.8265	+0.034	120 - 410	34.0000	33.7950	33.8565	-1.1	33.9015	-0.9	33.8665	-0.1	104.8
Netherlands	(Fl)	1.8417	-0.0017	412 - 422	1.8492	1.8405	1.843	-0.9	1.8443	-0.6	1.837	0.3	104.4
Norway	(NKr)	7.1276	-0.004	266 - 286	7.1485	7.1197	7.1331	-0.9	7.1401	-0.7	7.1076	0.3	95.8
Portugal	(Es)	170.650	+0.1	500 - 800	171.050	170.500	172.055	-9.9	174.05	-8.0	179	-4.9	92.5
Spain	(Pta)	135.530	-0.045	480 - 580	135.800	135.390	135.945	-3.7	136.645	-3.3	138.655	-2.3	80.3
Sweden	(SKr)	7.8654	+0.072	616 - 691	7.8763	7.7921	7.8854	-3.1	7.9154	-2.5	8.0004	-1.7	81.1
Switzerland	(SFr)	1.3986	-0.0039	962 - 980	1.4035	1.3975	1.3987	-0.1	1.3973	0.4	1.3815	1.2	104.0
UK	(£)	1.5171	+0.0053	168 - 174	1.5188	1.5095	1.5162	0.7	1.5149	0.6	1.5106	0.4	88.6
Ecu	-	1.1720	+0.0009	717 - 722	1.1727	1.1677	1.1698	2.2	1.1678	1.4	1.1771	-0.4	-
SDR†	-	1.41733	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9981	-0.0001	980 - 981	0.9982	0.9979	-	-	-	-	-	-	-
Brazil	(Cr)	1908.11	+32.81	810 - 812	1908.15	1908.10	-	-	-	-	-	-	-
Canada	(C$)	1.3866	+0.0001	863 - 868	1.3881	1.3827	1.3888	-1.7	1.3923	-1.6	1.4096	-1.7	83.1
Mexico	(New Peso)	3.3200	-0.003	150 - 250	3.3250	3.3150	3.321	-0.4	3.3228	-0.3	3.3302	-0.3	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	100.1
Pacific/Middle East/Africa													
Australia	(A$)	1.3502	-0.0043	497 - 506	1.3569	1.3492	1.3555	-4.7	1.3544	-1.2	1.3527	-0.2	89.8
Hong Kong	(HK$)	7.7255	-0.0005	250 - 260	7.7260	7.7250	7.725	0.1	7.7275	-0.1	7.7417	-0.2	-
India	(Rs)	31.3763	+0.0063	725 - 800	31.3800	31.3725	31.4563	-3.1	31.6013	-2.9	-	-	-
Japan	(Y)	104.650	-0.005	600 - 700	104.830	104.550	104.455	2.2	104.005	2.5	101.425	3.1	145.0
Malaysia	(M$)	2.5787	-0.0005	782 - 792	2.5828	2.5780	2.5712	3.5	2.5677	1.7	2.5987	-0.8	-
New Zealand	(NZ$)	1.6831	+0.0012	821 - 841	1.6858	1.6818	1.6849	-1.3	1.6895	-1.5	1.7112	-1.7	-
Philippines	(Peso)	26.9000	-	000 - 000	27.1000	26.7000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	+0.0003	500 - 510	3.7510	3.7500	3.751	-0.2	3.7531	-0.3	3.7858	-0.4	-
Singapore	(S$)	1.5320	-0.0012	315 - 325	1.5340	1.5315	1.5313	0.6	1.531	0.3	1.533	-0.1	-
S Africa (Com.)	(R)	[illegible]											
S Africa (Fin.)	(R)	[illegible]											
South Korea	(Won)	[illegible]											
Taiwan	(T$)	[illegible]											
Thailand	(Bt)	[illegible]											

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jun 1		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£
Belgium	(BFr)	100	19.08	16.60	4.856	1.997	4708	5.444	21.08	504.5	400.6	23.25	4.135	1.949
Denmark	(DKr)	52.41	10	8.702	2.545	1.047	2467	2.853	11.04	264.4	210.0	12.18	2.167	1.021
France	(FFr)	60.23	11.49	10	2.925	1.203	2835	3.279	12.69	303.8	241.3	14.00	2.490	1.174
Germany	(DM)	20.59	3.929	3.419	1	0.411	969.5	1.121	4.338	103.9	82.50	4.787	0.852	0.401
Ireland	(I£)	50.07	9.553	8.313	2.431	1	2357	2.726	10.55	252.6	200.6	11.64	2.070	0.976
Italy	(L)	2.124	0.405	0.353	0.103	0.042	100.	0.116	0.447	10.72	8.510	0.494	0.088	0.041

[illegible]

D-MARK FUTURES (IMM) DM 125,000 per DM

[illegible]

SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

[illegible]

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

STERLING FUTURES (IMM) £62,500 per £

[illegible]

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate

[illegible]

THREE MONTH EURODOLLAR (LIFFE) $1m points of 100%

[illegible]

THREE MONTH EUROMARK FUTURES (LIFFE) DM1m points of 100%

[illegible]

THREE MONTH EUROLIRA INT. RATE FUTURES (LIFFE) L1000m points of 100%

[illegible]

THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

[illegible]

THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

[illegible]

THREE MONTH EURODOLLAR (IMM) $1m points of 100%

[illegible]

US TREASURY BILL FUTURES (IMM) $1m per 100%

[illegible]

EUROMARK OPTIONS (LIFFE) DM1m points of 100%

[illegible]

EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

[illegible]

SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

[illegible]

BASE LENDING RATES

[illegible]

MONEY MARKET FUNDS

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jun 1 / Sch) · BELGIUM/LUXEMBOURG (Jun 1 / Frs.) · DENMARK (Jun 1 / Kr) · FINLAND (Jun 1 / Mka) · FRANCE (Jun 1 / Frs.) · GERMANY (Jun 1 / Dm.) · NETHERLANDS (Jun 1 / Fls.) · NORWAY (Jun 1 / Kroner) · SPAIN (Jun 1 / Pts.) · SWEDEN (Jun 1 / Kroner) · SWITZERLAND (Jun 1 / Frs.) · ITALY (Jun 1 / Lira)

[illegible]

PACIFIC

JAPAN (Jun 1 / Yen) · HONG KONG (Jun 1 / H.K.$) · MALAYSIA (Jun 1 / MYR) · SINGAPORE (Jun 1 / S$) · AUSTRALIA (Jun 1 / Aust$)

[illegible]

NORTH AMERICA

CANADA

TORONTO (Jun 1 / Can $)

4 pm close

[illegible]

MONTREAL (Jun 1 / Can $)

4 pm close

[illegible]

AFRICA

SOUTH AFRICA (Jun 1 / Rand)

[illegible]

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1994, except Toronto & Montreal (daily). § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

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■ TOKYO - MOST ACTIVE STOCKS: Wednesday, June 1, 1994

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Fujitsu	17.0m	1130	+30	Sanyo Elec	8.8m	573	+16
Hitachi	15.9m	1100	+20	M'bishi Elec	8.6m	698	+10
Kawasaki Steel	14.3m	423	-3	Ricoh	8.2m	990	+10
M'bishi Hvy	9.4m	767		Furukawa Elec	8.1m	743	+13
Nippon Steel	8.9m	376		Toshiba	7.9m	845	

INDICES

[illegible]

Japan

Nikkei 225 (18/5/49)	21053.11	20973.59	20636.97	21053.11	1/6	17369.74	4/1
Nikkei 300 (1/10/82)	309.89	307.79	307.13	309.89	1/6	269.22	4/1
Topix (4/1/68)	1683.58	1682.59	1678.33	1683.58	1/6	1445.97	4/1
2nd Section (4/1/68)	2341.05	2330.79	2329.85	2341.05	1/6	1823.33	4/1

Malaysia

KLSE Comp (4/4/86)	982.80	993.73	998.11	1314.46	5/1	928.33	4/4

** Sat May 28: Taiwan Weighted Price 5871.70; Korea Comp Ex 951.98. Base values of all indices are 100 except Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7, JSE 20 Industrials - 264.3, NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal, ♣ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Jun 1 - 2118.82 -23.72

■ CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jun	2024.0	1951.0	-62.0	2024.0	1949.0	40,325	51,179
Jul	2020.5	1948.0	-62.5	2020.5	1950.0	92	2,357
Sep	2038.0	1966.0	-62.0	2038.0	1972.0	7	14,624

Open interest figures for previous day.

US INDICES

Dow Jones	May 31	May 27	May 26	1994 High	1994 Low	Since compilation High	Since compilation Low
Industrials	3758.37	3757.14	3753.46	3978.36 (31/1)	3593.35 (4/4)	3978.36 (31/1/94)	41.22 (2/7/32)
Home Bonds	97.78	97.73	97.80	105.61 (21/1)	96.43 (13/5)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	1627.98	1622.83	1608.26	1862.29 (2/2)	1546.02 (20/4)	1862.29 (2/2/94)	12.32 (8/7/32)
Utilities	186.07	186.73	187.58	227.06 (3/1)	177.76 (12/5)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 3783.29 (3772.18) Low 3725.45 (3723.68) (Theoretical♣)
Day's high 3767.29 (3757.75) Low 3742.08 (3739.34) (Actual♣)

Standard and Poors	May 31	May 27	May 26	1994 High	1994 Low	Since compilation High	Since compilation Low
Composite ‡	456.50	457.33	457.06	482.00 (2/2)	438.92 (4/4)	482.00 (2/2/94)	4.40 (1/6/32)
Industrials▼	532.11	535.31	533.24	556.58 (2/2)	510.05 (21/4)	556.58 (2/2/94)	3.62 (21/6/32)
Financial	45.61	45.51	45.41	48.58 (31/1)	41.39 (4/4)	48.40 (28/9/93)	8.64 (1/10/74)
NYSE Comp.	252.24	252.78	252.61	267.71 (2/2)	243.14 (4/4)	267.71 (2/2/94)	4.46 (25/4/42)
Amex Mkt Val	440.45	440.94	438.62	487.89 (2/2)	427.60 (20/4)	487.89 (2/2/94)	29.31 (9/12/72)
NASDAQ Comp	735.19	733.14	731.64	803.93 (18/3)	705.51 (20/4)	803.93 (18/3/94)	54.87 (31/10/72)

■ RATIOS

	May 27	May 20	May 13	Year ago
Dow Jones Ind. Div. Yield	2.69	2.69	2.76	2.90
	May 25	May 18	May 11	Year ago
S & P Ind. Div. yield	2.46	2.48	2.54	2.52
S & P Ind. P/E ratio	23.41	24.06	23.52	26.25

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	456.10	454.10	-2.10	456.25	453.80	51,348	189,005
Sep	457.80	456.35	-2.35	458.20	456.30	8,012	31,997
Dec	-	459.10	-	-	459.10	45	7,984

Open interest figures are for previous day.

■ NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
Blockbuster	3,170,300	28¾	+1¾
Telefonos	2,915,200	52½	+⅛
Philip Morris	2,843,100	49⅞	-⅞
Lehman Bros	2,772,800	18	-¼
Wal-Mart	2,481,500	23⅞	-⅛
Countrywide	2,317,800	17⅛	+1⅛
Citicorp	2,293,300	39½	+⅛
Merck	2,242,700	30½	——
Gen Electric	2,007,400	49⅝	+⅛
Motorola	1,841,500	46⅞	-⅝

■ TRADING ACTIVITY

● Volume (millions)

	May 31	May 27	May 26
New York SE	205.906	188.409	254.360
Amex	12.416	12.773	23.783
NASDAQ	214.431	202.525	276.716
NYSE			
Issues Traded	2,799	2,784	2,804
Rises	954	1,136	1,173
Falls	1,196	918	899
Unchanged	649	730	732
New Highs	33	35	42
New Lows	46	28	28

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♣ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ▼ Subject to official recalculation.

4 pm close June 1

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1994 High	1994 Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chg'e Prev. Close
17⅜	14⅛	AAR	0.48	3.3	483	40	14½	14⅜	14½	+⅛
16⅞	13¼	A L Labs A	0.18	1.3	32	993	14⅛	14	14	-⅛
66	57⅞	AMP	1.68	2.6	22	1458	64¾	64⅛	64⅝	-⅛
72¾	52⅛	AMR			28	2687	56⅛	54⅞	56	+¾
5	3⅝	ARX			15	1281	4¾	4⅛	4⅜	+⅛
56⅛	38⅝	ASA	2.00	4.7	28	393	43⅜	42⅝	42⅝	-⅝
31⅛	25⅜	AbbotL	0.76	2.5	17	9174	30⅜	29⅞	30⅛	+½
13¾	11⅜	Abitibi Pr	0.50	4.0	8	29	12⅜	12¼	12⅜	+¼
13¾	11⅛	Acpincein			23	13	12½	12½	12½	
31	24½	ACE Ltd	0.44	1.6	4	883	27⅛	26¾	26¾	-½
12½	10⅛	ACM Gvt In x	1.09	10.0		508	11	10⅞	11	
10⅛	7⅞	ACM GvOpp x	0.80	9.2		62	8¾	8⅝	8⅝	
10⅝	8⅛	ACM Gvt Sp x	0.96	11.3		146	8⅝	d8⅛	8½	-⅛
12	9⅛	ACM Gvt Se x	1.09	10.9		167	10	9⅞	10	+⅛
11¾	8¾	ACM Man x	1.08	11.7		289	9½	9¼	9¼	-⅛
9¼	8	ACM Managd x	0.72	8.6		309	8½	8⅜	8⅜	-⅛
15½	8¾	AcmeClv	0.44	4.0	13	68	11	10¾	11	+⅛
9¼	6⅝	Acme Elect			6	146	9⅛	8⅞	9	
28¾	23	Acordia	0.60	2.1	14	4	28⅝	28½	28⅝	
9⅜	5¾	Actava	0.36	4.2	2	600	9	8⅝	8⅝	-¼
15⅝	11¼	Acuson			113	96	14⅞	14¾	14¾	-⅛
18⅜	16½	Adams Expr	0.48	2.8	0	76	17¼	17⅛	17⅛	
64	46½	Ad Micro x	3.00	5.1		1729	58⅞	57⅛	58⅝	+3⅛
31¾	18¾	AdvMic	3.00	10.4	12	16590	28⅞	27⅜	28⅞	+1⅞
6⅞	5	Advest Grp	0.16	3.0	8	52	5⅜	5¼	5⅜	
20	16⅜	Advo Inc	0.10	0.6	115	44	17⅜	17	17⅜	+⅜

Continued on next page

4 pm close June 1

NYSE COMPOSITE PRICES

Continued from previous page

1994 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
27	19¼	Safeway			23	504	23⅞	23	23¾	+¼
6⅝	4⅜	SafewayWt96				43	5½	5⅜	5⅜	+⅛
57⅞	50¼	StJoePaper	0.20	0.4287		60	58¾	58¼	58½	+½
30¼	26½	StJoeL&P	1.80	6.4	14	18	28¼	28	28⅛	-⅛
90	76⅞	StPaul	3.00	3.8	7	1965	78⅞	76⅞	78¼	+⅝
9⅝	6⅛	Salant Crp			8	50	6⅝	6½	6½	-⅛
49⅞	37¾	Sallie Mae	1.40	3.6	8	5573	39⅝	38⅞	39¼	-¼
13⅝	11⅞	Salomon Br	0.28	2.3		512	12⅝	12¼	12⅜	
52¼	44¼	Salomn	0.64	1.3	6	3046	50⅞	50⅛	50½	-⅝
25	18⅝	SnDgoGE	1.52	7.6	10	714	20¼	19⅞	20⅛	+⅛
10	7½	SantaFeEPs	0.18	1.8	9	319	8⅛	8⅞	8⅞	-⅛
40	34½	SantaFePac	2.88	7.6	17	50	37	36¼	36¾	+¾
26¼	19¾	SanFeP	0.10	0.4	13	6182	23¾	22¾	23⅝	+⅞
26	20⅛	SaraLee x	0.84	2.9	14	7635	21⅞	21½	21⅞	+½
50⅛	42¾	Scana Corp	2.82	6.4	11	176	44	43½	43⅞	
20½	13¾	Scecorp	1.42	10.1	9	6523	14⅛	13⅞	14	
40½	34¼	SchererRP			28	89	37¼	37	37	-⅞
69⅞	54½	SchrPl	2.04	3.1	18	4180	65⅞	64⅞	65⅞	+⅝
61½	50¾	Schlmb x	1.20	2.1	23	3280	57⅞	56½	56¾	-½
33	25¼	Schwab(C)	0.28	0.9	14	1454	31⅞	29¾	31⅛	+1
10¾	6⅛	Schwitzer			23	4	8⅛	8⅛	8⅛	
38⅞	24⅞	SciAtl x	0.12	0.3	74	907	37½	36⅞	37⅞	
16⅞	13⅛	Scotsman	0.10	0.7	14	61	14⅝	14⅞	14⅞	
46½	37¼	ScottP x	0.80	1.8	12	4287	u48¾	48	48½	+¾
28⅝	18⅝	ScudderNwF	0.21	0.9		64	24⅛	23⅝	24⅝	+¾
12⅞	9¾	StudGrNewF	0.16	1.5		[illegible]	[illegible]	[illegible]	[illegible]	

1994 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
25½	20	Yankee Egy x	1.22	5.8	12	16	21¼	21⅛	21⅛	+⅛
40	33⅞	York Int	0.16	0.4	18	648	36⅝	36	36¼	+¼
6⅞	4⅛	Zapata				299	4⅞	d4¾	4⅞	
13½	7	ZenthE			3	2630	10¼	10	10⅛	
24¼	20⅝	Zeigler Min	1.00	4.3	8	99	23¾	23⅛	23⅛	-⅛
7⅞	6⅝	Zenix Inc	0.82	11.5		86	7¼	7	7⅛	+⅛
18⅛	11¾	Zero	0.40	3.3	14	389	12¼	11⅞	12⅛	+⅛
29⅞	20⅛	Zurn Ind	0.88	4.0	19	199	21¾	21¾	21¾	+⅝
13⅞	12⅛	Zweig Fund	1.16	9.1		168	12¼	12⅝	12¾	+⅛
10¾	9⅛	Zweig Totl	0.84	9.0		233	9½	9⅜	9⅜	

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1994. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

NASDAQ NATIONAL MARKET

4 pm close June 1

AMEX COMPOSITE PRICES

4 pm close June 1

FINANCIAL TIMES Thursday June 2 1994

AMERICA

Inflation fears trigger decline in US stocks

Wall Street

US stocks declined as fresh signs of inflation depressed bond prices, *writes Frank McGurty in New York.*

By 1 pm, the Dow Jones Industrial Average was 14.46 lower at 3,743.91, while the more broadly based Standard & Poor's 500 was down 1.08 at 455.43. Volume on the NYSE was light, with 151m shares traded by early afternoon.

In the secondary markets, the American SE composite shed 1.36 to 439.09 and the Nasdaq composite retreated 3.81 to 731.38.

From the opening bell, stocks moved in step with bonds. At mid-morning the US Treasury market was sent into a tailspin when the National Association of Purchasing Management released the results of its monthly survey.

The closely watched report actually offered a mixed view of the economy. Its overall May index was unchanged from the previous month, but the prices index showed a sharp increase from April. The data suggested that a gradual escalation of demand for raw materials was beginning to feed through to prices paid by manufacturers. The trend, reasoned inflation-sensitive bond traders, would soon lead to higher prices paid by consumers.

But government securities managed to stabilise and recover some of the ground lost immediately after the NAPM's announcement. Sliding prices for gold and other commodities helped to soothe nerves, as did talk of outright purchases by the Federal Reserve.

The gradual improvement by bonds helped the Dow industrials. The index retraced about half its losses after falling by as many as 25 points during the morning. But some cyclical stocks were stubbornly anchored in negative territory. Caterpillar, $1⅞ lower at $105⅛, was responsible for most of the decline in the Dow. Cummins dropped $1¼ to $41⅞ and Alcoa fell $1 to $69⅜.

Takeover speculation in the pharmaceuticals field emerged once again. This time the potential target was US Surgical, the medical equipment supplier. Its stock jumped $2⅞ to $21⅞ on widespread expectations that Ciba-Geigy, the Swiss drug group, would make a takeover approach.

International Game Technology improved $1¼ to $23⅞ after its management issued a positive assessment of the company's prospects. In reaction to a recent slide in its share price, the company said that demand for its gambling equipment was at an all-time high.

Compaq Computer, meanwhile, shed $1½ to $116⅝ after announcing price cuts on some of its most popular products.

On the Nasdaq, Apple Computer lost $1½ to $28. Investors were apparently unimpressed by the formal launch of its Power Macintosh line in China and the announcement of plans to begin hardware production there. Elsewhere, Lotus Development dropped 2⅛ to $57¼ and Microsoft weakened $1¼ to $52¼.

Canada

Toronto was lower at midday, pulled down by a weak bond market and gold stocks.

The TSE 300 composite index declined 31.3 to 4,295.40 in volume of 31.04m shares valued at C$360m.

Canadian bond markets felt the impact of heavy foreign selling of Quebec bonds due to nervousness over forthcoming elections in the province.

On the TSE, the only sector to move ahead was consumer products, up 17.68 at 6,751.69. Seagram gained C$⅝ at C$41⅞ in spite of announcing lower first-quarter profits.

The gold and silver index dipped 152.79 to 10,093.54, with Placer Dome off C$⅜ at C$31⅛.

Among other active stocks, Newbridge Networks dropped C$4⅛ to C$59⅞ on rumours that the US Federal Communications Commission might call a temporary halt to equipment orders.

Brazil

After opening lower following disappointment over the failure by a congressional committee to agree a revision of the constitution late on Tuesday, the Bovespa index picked up again. At midsession the index stood a net 166 higher at 24,836.

Brokers commented that liquidity had risen by late morning as foreign investors returned to the market. Turnover was Cr220.2bn ($115.4m).

Telebras preferred gained 0.8 per cent at Cr72.60.

EUROPE

Paris off 2.4%, CAC-40 breaches 2,000

Tuesday's intraday recovery was reversed as bourses faced weakness in bond and futures markets and, in the afternoon, early declines on Wall Street, *writes Our Markets Staff.*

PARIS could not hold above the 2,000 level in the CAC-40 and closed at its lowest point since the end of July 1993.

The final kick downwards was triggered by Wall Street. But, once again, the real pressure on equities was imposed by the futures and bond markets as the CAC-40 index ended the session down 50.22, or 2.4 per cent, at 1,979.68, slightly above the day's low of 1,972. June futures finished at 1,951, with turnover in the equity market estimated at nearly FFr5bn.

Analysts commented that the equity market was "on the ropes", and that it was extremely difficult in the present climate to make an assessment of when it would be a good moment to return on the buy side. The very seasonal nature of the French market – the first quarter was traditionally seen as the period when stocks rose against the European average and summer a time of decline – was also advanced as a backdrop to the present situation.

Among the fallers, UAP closed below its privatisation price, down 5.5 per cent at FFr143.80 while, against the trend, Eurotunnel put on 1 per cent at FFr32.95 as the group provided bullish estimates of traffic volume.

FRANKFURT registered a new low in bund futures and fell away after an early, pre-bourse high of 2,146.62. The Dax index closed the session just 2.00 firmer at 2,129.70 and ended the post-bourse at 2,113.62.

Turnover eased from DM6.7bn to DM6.4bn. Major blue chips seemed studiously inert, with big price changes confined to Lufthansa, up DM8 to DM195 in an extension of this year's speculative run, and to the engineering sector, where Deutsche Babcock moved ahead DM10 to DM247.

At B Metzler, Ms Barbara Altmann said that investors were sitting on their hands; but, she added, there was beginning to be a case for selective buying with Bayer, for example, some 10 per cent off its high for the year at DM362.50 after hours, on a prospective 1995 p/e of 10.7.

AMSTERDAM was buffeted by a combination of negative influences from outside the equity market. The Aex index, which at one point had fallen to a session low of 396.08, closed off 3.25 at 397.52.

In spite of the overall gloom a few bright spots enlivened investors' interest. KLM, for instance, which reports its 1993/94 fourth quarter results today, advanced 60 cents to Fl 51.90, bringing its rise on the year to date to 24 per cent. Analysts were looking for the airline to come in with a profit in the Fl 50m range.

A broker's buy recommendation helped retailer Ahold to a rise of 30 cents to Fl 47.30, while ING, the financial services group, which also reports figures today, slipped 60 cents to Fl 75.30.

The heavily weighted Royal Dutch also added some stability to the overall trend, the shares adding Fl 1.50 to Fl 196.30 and benefitting from a positive broker's note.

ZURICH added buying of defensive stocks to the selling of cyclicals which marked Tuesday's trading, and the upshot was a rise against the general trend.

The SMI index rose 8.8 to 2,731.5. Roche certificates rose SFr90 to SFr6,890. UBS by SFr17 to SFr1,212 in banks and, in insurers, Winterthur by SFr25 to SFr715.

Among cyclicals, BBC Brown Boveri continued its downward career, SFr25 lower at SFr1,235, and Schindler accelerated with a fall of SFr350 to SFr8,200.

MADRID followed the pricing of the Endesa and Santander issues with an above average drop in the general index, 5.62 or 1.7 per cent lower at 321.38. Turnover shot up from Pta25bn to Pta42bn.

An interaction of futures, basket trading and the new issue closures was mooted as Endesa lost Pta150 at Pta6,400, and Santander Pta165 at Pta4,865. Elsewhere, Repsol and Telefónica fell Pta145 to Pta4,135 and Pta75 to Pta1,785 respectively.

WARSAW fell sharply as profit-taking in second-tier stocks coincided with falls in major blue chips which had already been undermined by weak investor sentiment.

The all-share Wig index declined 870.7 or 7.2 per cent to 11,166.0, while turnover dropped 36 per cent to 1,000bn zlotys and volume 46 per cent to 1.6m shares.

ISTANBUL, in contrast, rose 5.2 per cent, helped by sustained buying of state companies. The composite index gained 774.36 to 15,523.46, recovering most of its losses since the start of the week.

Written and edited by William Cochrane and John Pitt

FT-SE Actuaries Share Indices

Jun 1	THE EUROPEAN SERIES							
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1402.07	1399.80	1395.78	1396.06	1395.21	1392.35	1393.66	1389.97
FT-SE Eurotrack 200	1410.25	1408.78	1405.23	1405.83	1403.94	1401.05	1404.04	1399.53
	May 31	May 27	May 26	May 25	May 24			
FT-SE Eurotrack 100	1399.73	1404.12	1411.45	1412.51	1435.77			
FT-SE Eurotrack 200	1409.70	1414.33	1426.87	1439.24	1453.90			

Base 1000 (26/10/90). Highday: 100 - 1402.15; 200 - 1410.83 Low/day: 100 - 1389.97 200 - 1398.34

ASIA PACIFIC

Nikkei tops 21,000 for first time in 1994

Tokyo

Equities extended their run to a fourth consecutive high for the year, the Nikkei 225 average closing above the technically significant 21,000 mark for the first time since last September, *writes Robert Patton in Tokyo.*

The index gained 79.52 at 21,053.11, within striking distance of last year's peak of 21,148.11, after a day's high of 21,090.72 and low of 20,896.38. First section volume on the TSE was estimated at 700m shares and winners outnumbered losers by 613 to 419, with 158 issues unchanged.

The capital-weighted Nikkei 300 average ended at 309.89, up 2.10, and the Topix index of all first section stocks rose 11.08 to 1,693.58. In London the ISE/Nikkei 50 index added 2.41 at 1,405.42.

The market moved higher at the opening as foreign buyers returned after Monday's holidays in New York and London. With some exceptions, domestic institutions and arbitrageurs continued to sell throughout much of the morning, but they were no match for foreign investors.

Trading was characterised by active demand for highly priced high-technology shares, encouraged by a government panel's report yesterday which advised governmental investment in fibre-optic infrastructure to create a national multimedia network.

Fujitsu, a world leader in fibre-optic switching systems, put on Y30 at Y1,130. Other multimedia-oriented companies also gained ground.

NTT, positioned to be a leader in the expansion of the nation's telecommunications infrastructure, advanced Y27,000 to Y892,000. Heavy electricals were also mostly higher, Hitachi rising Y20 to Y1100.

Oil shares moved up on a broad front, supported by higher prices for crude oil and projections that China's need for oil would increase as its economy expands. Nippon Oil moved forward Y18 to Y778 and Japan Energy finished at Y458, up Y9.

In Osaka the OSE average rose 148.83 to 23,311.19, with 40.9m shares changing hands. OSE volume for May was 36.5 per cent higher than in April, reaching 579.6m shares.

Roundup

Sentiment in the region was mixed to better, with selectivity in evidence.

MANILA climbed by 2.7 per cent on a higher than expected GNP growth rate, a late rally in an already bullish market driving the composite index up by 83.67 to 3,114.44 after a bout of profit-taking.

GNP-related stocks were favoured, with San Miguel "A" shares up 4.9 per cent to 107 pesos and Meralco "A" 3.3 per cent better at 312.50 pesos.

SYDNEY recovered on economic data, rising futures and stronger commodity and gold prices, the All Ordinaries index closing 15.4 firmer at 2,097.2 in turnover of A$456.2m.

Brokers said that while the 1.9 per cent rise in March GDP was not good for bonds, it fuelled buying of equities because of the prospect of higher company earnings.

Among resource stocks, CRA jumped 26 cents to A$18.36, Western Mining climbed 10 cents to A$7.80 and MIM added 4 cents at A$3.17.

TAIPEI saw waves of buying in electronics shares which pushed the weighted index up by 69.89, or 1.2 per cent, to 5,961.45 as turnover increased from T$53.96bn to T$63.03bn.

Rises in electronics were led by the leading computer manufacturer Acer, T$2.50 stronger at T$66.50 on newspaper reports of a higher 1994 profits target.

Petrochemical issues also attracted buying, on expectations of higher product prices. China Petrochemical was up T$1.20 at T$28.10 and Union Petrochemical advanced T$2.50 to T$44.20.

BANGKOK featured banks and building materials as the SET index moved ahead 11.48 to 1,368.35 in turnover of Bt6.7bn. The banking sector rose 2.55 per cent.

HONG KONG was subdued on a lack of domestic news and the absence of foreign initiatives, the Hang Seng index declining 41.49 to 9,512.07 as turnover recovered from HK$3.21bn to HK$3.97bn.

SINGAPORE fell as general sentiment was weakened by retail margin selling in Malaysian shares traded over the counter. The Straits Times Industrial index slipped 13.79 to 2,267.88.

Volume came to 110.45m shares. Singapore Press foreign shed S$1 to S$26 and Sembawang Corp 80 cents to S$12.

KUALA LUMPUR dropped 1.1 per cent on forced selling linked to margin calls by stockbrokers, the KLSE composite index closing 10.93 down at 982.80, after hitting an intraday low of 976.26.

SEOUL fell for the fourth consecutive session, depressed by institutional inactivity and by worries about North Korea's nuclear programme.

The composite stock index dipped 6.72 to 932.77. Reports that an international sanction against North Korea was imminent, and that Pyongyang had test-fired a missile over the Sea of Japan on Tuesday, brought an extra chill to sentiment.

SOUTH AFRICA

Johannesburg was firmer as equities were given a boost by a rise in the gold bullion price. The overall index moved forward 24 to 5,420, industrials 14 to 6,563 and golds 31 to 1,948. Anglos, which reported higher full-year earnings, advanced 75 cents to R219.

Crisis of confidence as Tel Aviv drops further 2.6%

The Israeli stock exchange registered its third successive day of heavy falls yesterday, with the Mishtanim index dropping nearly 3 per cent, writes David Horovitz in Jerusalem.

The market has been drifting downwards for several weeks, and has lost in excess of 25 per cent of its value in the last month.

Analysts said that the market was going through a crisis of confidence, and ascribed the latest falls to a variety of factors: a financial crisis in the country's largest health fund, Kupat Holim Clalit, unexpectedly poor results published recently by several large companies, deadlock in the peace process with Syria, and soaring house prices that have been fuelling inflation, prompting recent interest rate rises.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms May 27 1994	% Change over week	% Change on Dec '93	Local currency terms May 27 1994	% Change over week	% Change on Dec '93
Latin America	(210)	629.72	+1.8	-3.2			
Argentina	(25)	963.00	-1.0	-3.1	530,923.78	-1.0	-3.1
Brazil	(57)	242.11	+2.8	+4.0	607,432,406.0	+13.7	+497.8
Chile	(25)	653.43	+3.0	+18.4	1,108.07	+2.8	+16.2
Colombia[1]	(11)	897.76	-1.7	+39.3	1,338.59	-1.8	+44.4
Mexico	(69)	912.53	+2.5	-9.3	1,304.65	+2.9	-3.3
Peru[2]	(11)	152.17	-1.6	+25.8	203.32	-1.3	+27.9
Venezuela[3]	(12)	517.64	-6.7	-12.5	1,987.27	+12.9	+39.8
Asia	(558)	245.23	+0.3	-15.7			
China[4]	(18)	99.21	+6.9	-33.5	108.56	+6.9	-33.8
South Korea[5]	(156)	132.21	+0.0	+11.9	140.16	+0.0	+11.7
Philippines	(18)	293.56	+4.0	-13.8	379.36	+4.0	-14.6
Taiwan, China[6]	(90)	128.40	-2.1	-5.0	129.48	-1.9	-3.2
India[7]	(76)	123.79	-0.6	+6.3	136.89	-0.6	+6.3
Indonesia[8]	(37)	108.76	+4.8	-12.8	127.18	+4.9	-10.3
Malaysia	(105)	266.49	-1.0	-21.4	254.66	-1.0	-24.4
Pakistan[9]	(15)	355.31	+0.2	-8.4	493.43	+0.3	-6.6
Sri Lanka[10]	(5)	178.91	+1.5	+0.9	192.22	+1.7	+0.7
Thailand	(55)	394.82	+4.2	-17.3	394.74	+3.9	-18.3
Euro/Mid East	(125)	99.71	-1.2	-41.1			
Greece	(25)	213.53	-5.2	-6.2	356.54	-6.1	-7.3
Hungary[11]	(5)	197.36	+0.1	+18.4	243.54	-0.2	+20.6
Jordan	(13)	164.94	+0.3	-0.4	237.50	+0.0	-0.8
Poland[12]	(12)	731.28	+3.6	-10.6	1,042.85	+3.8	-5.5
Portugal	(25)	116.67	-3.0	+2.5	137.08	-2.5	-0.8
Turkey[13]	(40)	76.56	+2.3	-64.0	1,162.34	-1.0	-20.1
Zimbabwe[14]	(5)	291.30	+0.1	+44.1	344.66	+0.5	+61.3
Composite	(892)	312.55	+0.9	-12.1			

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1992; (12)Dec 31 1992; (13)Aug 4 1989; (14)July 2 1993.

The bear phase among the world's emerging markets continues to deepen and the consensus is that the current downward cycle has further to run, writes John Pitt.

Foreign & Colonial observes that over the last 20 years emerging markets have seen four downward corrections. "Three of these falls," it notes, "lasted less than eight months, and the other, in the early 1980s, a little over 2½ years." On the evidence that the IFC composite index has dropped by some 9 per cent since the beginning of the year, F&C suggests that the current correction probably has "a couple more months to run and another 3 per cent to fall".

Baring Securities, in its latest strategy document, argues that having been driven higher by the flood of US money throughout 1993, emerging markets are likely to remain under pressure over the next three months given further tightening of US monetary policy. However, Baring does see comfort ahead, especially in the second half of 1994, as trading prospects in general improve. More specifically, Baring finds favour with the north east Asian region, South Korea in particular, and, in Latin America, recommends Mexico, suggesting that Argentina could "be tripped up by rising US interest rates".

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY MAY 31 1994 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY MAY 30 1994 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (69)	175.20	-0.2	171.82	115.90	149.70	157.84	-0.7	3.48	175.50	172.41	116.04	150.24	158.93	189.15	130.19	136.75
Austria (17)	174.16	-0.6	170.80	115.21	148.81	148.70	-0.7	1.09	175.24	172.15	115.87	150.01	149.75	195.41	142.90	145.56
Belgium (39)	171.35	-0.1	168.05	113.36	146.41	142.80	-0.4	3.86	171.56	168.53	113.43	146.88	143.34	176.67	141.92	147.31
Canada (108)	131.10	0.3	128.58	86.73	112.02	131.63	0.4	2.57	130.72	128.41	86.43	111.90	131.12	145.31	121.46	129.22
Denmark (33)	250.46	-0.2	245.63	165.69	214.00	219.67	-0.2	1.34	251.10	246.67	166.02	214.95	220.04	275.79	207.58	219.34
Finland (23)	145.15	-1.7	142.35	96.02	124.02	165.71	-1.5	0.88	147.65	145.04	97.62	126.39	168.26	156.72	85.54	100.23
France (99)	168.21	-1.0	164.97	111.28	143.72	148.27	-1.1	3.04	169.86	166.86	112.31	145.40	149.93	185.37	149.60	158.16
Germany (58)	137.55	0.4	134.90	90.99	117.53	117.53	0.2	1.76	136.99	134.57	90.58	117.27	117.27	147.07	107.59	113.20
Hong Kong (56)	391.33	0.5	383.80	258.88	334.38	388.17	0.5	2.74	389.31	382.45	257.41	333.27	386.15	506.56	271.42	289.29
Ireland (14)	183.21	-0.1	179.69	121.20	156.55	174.51	0.0	3.48	183.31	180.08	121.21	156.93	174.53	209.39	155.93	183.80
Italy (60)	88.30	1.1	86.60	58.41	75.45	104.95	1.1	1.50	87.35	85.81	57.76	74.78	103.76	97.78	57.88	70.05
Japan (469)	161.35	0.1	158.24	106.74	137.86	106.74	0.2	0.75	161.14	158.30	106.55	137.95	108.55	165.91	124.54	150.68
Malaysia (93)	465.02	-1.0	456.06	307.63	397.34	461.92	-1.1	1.45	469.63	461.35	310.52	402.04	467.01	621.63	312.51	344.02
Mexico (18)	2134.84	-0.1	2093.69	1412.27	1824.07	7756.27	0.1	1.00	2137.51	2099.80	1413.30	1829.81	7751.96	2647.08	1431.17	1493.02
Netherland (26)	198.57	-0.1	194.75	131.37	169.67	167.07	-0.2	3.36	198.81	195.31	131.46	170.20	167.48	207.43	164.22	170.52
New Zealand (14)	70.32	0.5	68.97	46.52	60.09	62.80	-0.4	3.81	69.94	68.71	46.25	59.88	63.05	77.59	48.57	49.14
Norway (23)	195.70	-1.4	191.93	129.46	167.21	189.44	-1.4	1.75	198.47	194.97	131.23	169.90	192.15	206.42	150.61	159.74
Singapore (44)	348.88	-0.6	342.16	230.80	298.11	246.50	-0.5	1.54	350.95	344.76	232.04	300.43	247.97	378.92	242.46	259.43
South Africa (59)	263.32	0.1	258.25	174.20	224.99	273.38	0.0	2.27	263.05	258.41	173.92	225.18	273.38	280.26	175.93	199.01
Spain (42)	144.80	-1.3	142.01	95.79	123.72	148.72	-1.3	4.01	146.69	144.10	96.99	125.58	150.64	155.79	116.33	128.55
Sweden (36)	219.68	-2.1	215.45	145.33	187.71	253.45	-1.6	1.58	224.48	220.53	148.43	192.17	257.62	231.35	163.85	184.05
Switzerland (47)	159.26	-0.5	156.19	105.35	136.08	138.47	-0.7	1.75	160.02	157.20	105.80	136.98	139.38	176.56	124.46	128.36
United Kingdom (205)	183.84	0.3	180.29	121.62	157.08	180.29	0.1	4.15	183.32	180.08	121.21	156.93	180.08	214.96	170.32	179.97
USA (519)	186.06	-0.3	182.48	123.09	158.98	186.06	-0.3	2.88	186.54	183.25	123.34	159.69	186.54	196.04	178.95	183.94
EUROPE (721)	164.64	-0.1	161.47	108.91	140.67	153.49	-0.2	3.03	164.83	161.92	108.98	141.10	153.83	178.58	141.58	147.95
Nordic (115)	208.26	-1.6	204.25	137.77	177.95	208.61	-1.2	1.43	211.62	207.88	139.92	181.16	211.26	220.60	155.82	171.76
Pacific Basin (750)	169.78	0.1	166.51	112.32	145.07	116.82	0.1	1.04	169.62	166.63	112.15	145.20	116.49	169.78	134.79	154.51
Euro-Pacific (1471)	167.48	0.0	164.26	110.80	143.10	131.61	0.0	1.85	167.47	164.51	110.73	143.36	131.65	170.78	141.98	151.70
North America (625)	182.65	-0.2	179.13	120.83	156.06	182.29	-0.2	2.87	183.08	179.85	121.05	156.72	182.71	192.73	175.67	180.54
Europe Ex. UK (516)	150.31	-0.3	147.41	99.44	128.43	136.31	-0.4	2.38	150.83	148.17	99.73	129.12	136.69	167.47	122.37	128.08
Pacific Ex. Japan (281)	252.83	-0.1	247.96	167.26	216.03	226.38	-0.3	2.82	253.04	248.58	167.31	216.62	227.01	296.21	182.38	192.49
World Ex. US (1654)	168.65	0.0	165.40	111.57	144.10	134.95	0.0	1.87	168.62	165.64	111.49	144.35	134.97	172.51	142.94	152.23
World Ex. UK (1968)	172.38	-0.1	169.06	114.04	147.29	147.83	-0.1	2.03	172.58	169.54	114.11	147.74	148.11	175.58	153.22	160.08
World Ex. So. Af. (2114)	172.88	-0.1	169.55	114.37	147.72	150.06	-0.1	2.23	173.03	169.97	114.40	148.12	150.21	178.56	155.00	161.70
World Ex. Japan (1704)	182.01	-0.2	178.50	120.41	155.51	176.12	-0.2	2.87	182.32	179.10	120.55	156.07	176.52	195.20	165.72	168.70
The World Index (2173)	173.42	-0.1	170.08	114.72	148.17	151.00	-0.1	2.23	173.56	170.50	114.75	148.57	151.15	178.97	155.17	161.84

Constituent change 1/6/94: Name change Pinault-Printemps to Pinault-Printemps/La Redoute (France). Latest prices were unavailable for this edition. South African market closed 31/5/94.

FINANCIAL TIMES SURVEY

More turbulence may lie ahead for the dollar
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FOREIGN EXCHANGE

Hedge funds – cowboys of the financial markets
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Thursday June 2 1994

Chastened traders yearn for trend

Peter Norman assesses the outlook as the markets try to cope with frustrated expectations

The time for easy pickings is over.

After several years of rapidly growing turnover and strong profit growth, the global foreign exchange business is suffering.

The markets this year have had to adapt to adverse conditions and cope with frustrated expectations. The dollar has been weak, instead of rising as widely predicted. This year's bloodbath in the world's bond markets has inflicted heavy losses on some of the more aggressive currency traders leading to a shrinkage of liquidity and an injection of caution into their activities.

"The mood among the big foreign exchange and bond players is grim," says Jim O'Neill, head of global research at Swiss Bank Corp in London. According to one senior analyst, trading conditions "are the worst they have been for six years and some people have made big losses".

The current gloom contrasts with the boom years of the early 1990s when global turnover soared to $1,000bn a day and currency traders and investors were presented with a number of relatively safe bets.

With the industrial countries in recession, it was easy to work on the assumption that interest rates were heading downwards and make money accordingly. The market could also exploit policy errors, such as the determination of the UK and Italian governments to defend sterling and the lira in the European exchange rate mechanism until their forced exits in September 1992.

The decision last August of the European Union's finance ministers to widen the ERM fluctuation margins to 15 per cent either side of the system's bilateral central rates from 2.25 per cent and 6 per cent previously, removed one of the biggest one-way bets from the market at a stroke. The French franc and British pound have been effectively sidelined in currency trading this year.

Most action has been in the "triad" currencies – the dollar, the yen and the D-Mark. And it is in those currencies that some of the smartest operators have come unstuck.

At New Year, the forecasters' consensus was that the dollar would fluctuate between Y112 and Y114 and DM1.75 and DM1.78 between Easter and the end of the year. Early last month, it was heading towards record low levels against the yen and threatened to breach the psychologically important Y100 barrier. The dollar remains groggy despite subsequent central bank intervention, rising US interest rates and falling rates in Germany.

The dollar's weakness has been a reminder of how fickle markets can be. In January, the dollar looked sure to rise because the US economy was generally expected to grow faster than its main trading rivals, forcing interest rate differentials to move in the dollar's favour as the US tightened monetary conditions and Germany, and possibly Japan, eased.

Instead a US-Japanese confrontation on trade and the spill-over effects of higher US interest rates on highly leveraged bond markets achieved the reverse effect.

The Clinton administration's aggressive tactics and "shoot-from-the-lip" diplomacy to force Japan to cut its bilateral trade surplus with the US were construed – rightly or wrongly – as signs that the US wanted a higher yen to achieve its trade goals.

Open disagreement between President Bill Clinton and the former Japanese prime minister, Morihiro Hosokawa, at a meeting on February 11 caught speculative traders, including some lightly regulated offshore hedge funds and the proprietary trading desks of some large investment banks, off guard. As the US currency slumped in response to the trade news, they were forced into a costly liquidation of positions built on borrowed funds in anticipation of a rising dollar.

The decision of the Federal Reserve Board earlier in February to start raising US interest rates was intended as a pre-emptive, confidence-building strike against inflation. Instead, it caught the global bond markets unprepared.

The subsequent scramble out of bonds caused heavy losses among highly leveraged operators including hedge funds, destroying part of their capital and curtailing their ability and willingness to indulge in further speculation in the foreign exchange and other financial markets.

There had already been some victims from the ERM upheavals of 1992 and 1993, including Bank Negara, the Malaysian central bank, which made the costly mistake of backing sterling in 1992. This year's speculative turmoil has claimed new scalps. George Soros, the financier who reported making $1bn during the 1992 sterling crisis, admitted losing $600m when a bet against the yen went sour.

One senior analyst estimates that this year's trading losses have shrunk the hedge funds' capital from around $30bn to $15bn. On the assumption that such funds leverage their capital tenfold, their losses have taken about $150bn in liquidity from the market. Possibly reflecting the hedge funds' problems, recent attacks on the Greek drachma and Portuguese escudo have appeared half-hearted compared with the assaults on EU currencies in previous years.

This year's trading upsets have encouraged some other changes in behaviour. Symptoms of a "back-to-basics" trend are a determination among some banks to pay more attention to customer business and a revived interest in "fundamentals" in the analysis of currency movements.

More attention is being given to the global flow of funds. Some fundamentalists ascribe the dollar's weakness to a continuing diversification by US financial institutions, such as pension funds, of their investments outside the US while Japanese investors are pulling back from involvement abroad.

Others, such as Neil MacKinnon, Citibank's chief currency strategist, say the market paid insufficient attention to "volume analysis" showing that market participants were very heavily invested in the dollar last summer. That has meant little natural demand for the US currency even when it has appeared a bargain.

Another group, including Mr O'Neill, a long-time dollar bear, argues that the dollar is bound to be soft given the chronic US current account deficit that has totalled $1,025bn since 1984. The International Monetary Fund has forecast a continuing deterioration in the US current account to $166bn in 1995 from $109bn last year.

If nothing else, constrained liquidity and increased uncertainty have enhanced the power of one group of players: the central banks. Intervention by up to 17 central banks headed by the US Federal Reserve successfully halted a threatened fall by the dollar through the Y100 level last month.

But although this was the first instance of large-scale concerted intervention since October 1992, it does not presage a new drive by the leading industrial nations to enforce currency stability. The collapse of communism and the installation of an "America-first" administration have weakened the ties among the Group of Seven nations. Concerted intervention, if and when it takes place, will reflect an opportunist consensus or temporary identity of interests among the big industrial powers and is therefore likely to be a relatively rare event.

These various forces have left the market "yearning for a trend to emerge", says Paul Chertkow, head of global currency research at Union Bank of Switzerland. After investing heavily in their foreign exchange operations in recent years, few operators are happy with the present regime of relatively small plays and correspondingly small gains.

A clear trend could appear if the current uncertainty over the dollar crystallised into either a break with, or confirmation of, what remains of the bullish consensus for the US currency. That would mean renewed volatility in trading, offering a chance for this year's losers to rebuild their profits.

While the beleaguered dollar struggles against the rising yen, the D-Mark and sterling remain surprisingly resilient

More turbulence may lie ahead for the US currency in the short term, warns **Patrick Harverson**

Japanese trade row clouds the future

After opening the year on a bullish note, supported by the US economy's strong performance and expectations of higher domestic interest rates, the dollar dropped sharply in April as short-term negative influences – an ill-conceived government dollar policy, deteriorating US-Japan trade relations, and political uncertainties at home and abroad (notably in Korea and Mexico) – overwhelmed the positive fundamentals. The situation deteriorated so quickly that by early May massive intervention by up to 17 central banks was required to halt the US currency's free fall.

While the central banks' actions appeared to have set a short-term floor for the dollar around DM1.65 and Y104, the foreign exchange markets wonder what the next six to 12 months holds for the beleaguered greenback: further depreciation, or recovery?

Although currency analysts warn that *more turbulence may lie ahead* in the short term, most feel that the outlook is brighter for the dollar, if only because the Clinton administration – after attempting to "talk down" the dollar to narrow the trade gap with Japan – has finally changed the course of its policy.

Allen Sinai, chief global economist at Lehman Brothers, says: "We've seen the bottom in the dollar. The main reason is that the US administration has [realised] that allowing the perception to exist that the US has a dollar depreciation policy was a big mistake. It was clearly counter-productive, because [any benefit derived from] the opening of Japanese markets that might have come from using the dollar as a political club against Japan was much less than the political cost of the higher interest rates that come off a lower dollar."

Realising that it cannot afford, for political reasons, to allow a weaker dollar to pull long-term interest rates higher, the US government is now committed, in word and deed, to support the US currency against the yen and the D-Mark.

John Lipsky, chief economist at Salomon Brothers, says: "There were no magic wands waved by the intervention that will completely change the outlook for currencies. Yet, the G7's actions, and the change in US policy regarding the dollar ... have truncated the downside risks for the dollar. The G7 is not trying to draw a line in the sand, or define a specific target band for currencies – but the message is clear. Additional dollar depreciation, especially in the context of weakening capital markets, will be resisted by the US authorities, with the co-operation of other central banks."

Analysts are confident that the foreign exchange market has got this message, because institutional investors and currency speculators realise that the central banks have the room within their domestic monetary frameworks to take whatever action is needed to protect the dollar. As Mr Lipsky puts it: "There is no policy dilemma facing central banks in supporting the dollar," because the needs of European and Japanese economies are likely to require further stimulation from easier monetary policy in the near future.

The Bundesbank's decision to cut 50 basis points off German interest rates on May 11, for example, was taken with one eye fixed on the dollar. Although the Bundesbank explained the move in purely domestic economic terms, it was in its interests to provide the dollar with a much-needed lift, for a weak US currency was posing a danger to Germany's export recovery.

The May cut in German rates should shift the interest rate differentials further in the US currency's favour if, as is expected, the Federal Reserve continues to tighten US monetary policy during the late spring and early summer.

Much also depends on how US financial markets behave over the coming months. Declines in the price of US assets was one of the factors behind the dollar's recent slide. Anticipating trouble ahead for the inflation-obsessed US bond market, and for the vulnerable and US stock market, international investors steered clear of dollar-denominated assets during March and April.

Ironically, further monetary tightening by the Fed – normally negative for bond and equity prices – might come to the US markets', and thus the dollar's, rescue. If, by raising rates a few more notches the Fed convinces the bond market that it will be able to stave off a resurgence of inflation, long-term bond yields should start to come down. This would breathe new life into US equities, and in the process make international investors more likely to buy dollars to purchase US financial assets.

While the US administration's new dollar policy, improving interest rate differentials, and a possible strengthening in US financial markets are all factors in the dollar's favour over the coming months, there is one cloud hovering above the US currency that will not go away: US-Japanese trade relations.

The failure of the new Japanese prime minister Tsutomu Hata to build a majority in parliament makes another general election likely, probably after the passage of the next fiscal budget in June. With so much uncertainty surrounding the political situation in Japan, an early resolution of the trade dispute between the US and Japan cannot be expected. Consequently, the dollar is likely to remain vulnerable in the near-term to speculative selling against the yen. Some analysts predict that the US currency could fall through the headline-grabbing Y100 level, albeit only temporarily.

Over the longer-term, however, analysts feel confident that a gradual improvement in the US's trade balance with Japan, prompted by a strengthening US export sector and some modest opening up of Japanese markets to overseas goods, will allow the dollar to climb back from its lows against the yen.

Mr Sinai at Lehman envisages the dollar reaching Y105 by midsummer, then appreciating to Y110 or more by the end of the year, while Mr Lipsky at Salomon makes a similar prediction, forecasting Y110 by the year end.

As for the dollar/DM rate, analysts expect a widening differential between the two countries' interest rates and economic performance to boost the dollar to at least DM1.70 by the summer and DM1.75 by Christmas.

Emiko Terazono says the strong Japanese currency has upset business

Yen for the yen hits dollar

The recent trade friction with the US has been highlighted by the Japanese media as the main reason for the yen's rise, but a closer look indicates that there may be more technical forces at work.

The capital flows into and out of Japan provide some explanation for the recent trend of a rising yen and a weakening dollar – Japanese investing less in overseas bonds, shares, and golf courses, and foreign investors buying yen to purchase Japanese shares.

During the economic "bubble" of the late 1980s, Japanese institutional investors were the largest suppliers of capital in the international markets. According to the Bank of Japan annual net outflow of long-term capital averaged $110bn between 1985 and 1989. This fell sharply in the 1990s and in 1992 there was a total outflow of $28.5bn while last year the outflow was $78.3bn.

The ratio of overseas securities to total investment assets at Japanese life assurers, the country's leading institutional investors, for instance, fell to 9.2 per cent at the end of last year, down from 15.7 per cent in 1989.

The customary repatriation of funds during the January-March quarter, the final quarter of the business year, when institutions sell their foreign securities holdings to shore up dwindling profits, has also put downward pressure on the dollar and pushed up the yen.

The liquidation of US real estate assets has had the same effect. Last year, Japanese corporations sold or partially disposed of $17.59bn of US properties, nearly a quarter of the total US property portfolio built up by the Japanese institutions since the start of the investment boom in 1985, according to Kenneth Leventhal, the US accountancy firm.

Japanese investors have also reduced the purchase of US financial assets this year because of a tightening of US interest rates. During the final quarter of last year, Japanese institutions bought $37.5bn of US shares and bonds. That figure declined sharply to $3.5bn for the first two months of this year.

Meanwhile, the buying of Japanese shares by overseas investors has also helped boost the yen. The Bank of Japan says overseas investment in Japanese stocks was a record $34.5bn during the first quarter, the demand coming mainly from US pension funds.

The strong yen has triggered an outcry from the business community, because it affects severely the competitiveness of Japanese companies. The Economic Planning Agency estimates that Japan's export industries are on average competitive at Y117 to the dollar. The Keidanren, the business leaders' federation, reckons each 5 per cent rise in the yen-dollar rate knocks 0.3 of a percentage point off annual gross *domestic product growth*.

But while capital flows may influence the underlying strength of the yen, much of the latest volatility has been caused by speculators. The breakdown of the US-Japan bilateral trade talks - the US is pressurising Japan to cut its large current account surplus by stimulating demand and improving market access - prompted expectations that the US will use the currency market to curb Japanese exports, triggering aggressive buying of the yen against the dollar.

But in late April, when the dollar looked like falling to a record low, below Y100, the US Federal Reserve and other central banks stepped in to support the US currency, not least because of the destabilising effect of dollar weakness on the US bond market.

Central bank intervention in itself is normally insufficient to support a currency, but some analysts believe that the recent rise in US interest rates, and the easing of short-term money market rates in Japan, will widen interest rate differentials enough to curb the further rise of the yen. Shrinkage of Japan's current account surplus, and lower capital inflows, would assist further.

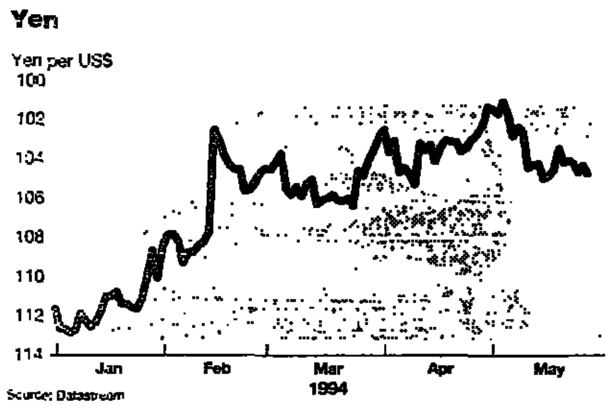
With the US administration seemingly adopting a more moderate stance towards Japan, Salomon Brothers in Tokyo, believes that the yen's appreciation has entered the final phase. "Over the next few months the yen is expected to weaken toward an exchange rate of Y110 to the dollar," it says. Others, however, believe the market may yet test the Y100 level before weakening.

With both US and Japanese trade officials making positive noises on bilateral trade, the volatility on the currency market which accompanied the breakdown of the talks in March will probably be reduced. Although comprehensive tax reforms may be delayed, due to the minority government, an announcement of a continued income tax cut into next fiscal year is expected to be acceptable to the US.

A key issue is when Japanese institutions will start investing overseas? Keeping funds in the domestic markets will not yield attractive returns. The central bank has eased short-term interest rates to historical lows of less than 2.1 per cent, and the domestic bond market offers little better returns, with the compound yield at around 3.8 per cent.

However, fears of suffering currency losses on overseas investments as the yen appreciates has kept most investors cautious. The sharp decline in unrealised profits due to the stock *market plunge has also* wiped out the cushion for possible investment losses, and eroded the Japanese institutions' ability to take risks.

Yen



Source: Datastream

Sterling has benefited from being on the sidelines, writes **Philip Coggan**

Stable pound confounds cynics

After the excitement of 1992, when sterling left the exchange rate mechanism, the pound has been remarkably stable.

Apart from a brief dip in February and March of 1993, the pound has tended to trade in a range around the DM2.50 level and in an even narrower band around $1.50.

In part, this is because the worst fears aroused at the time of the ERM departure have not been realised. For once, devaluation has not led to a resurgence of inflation in the UK. Indeed, underlying inflation (excluding mortgage payments) has dropped to its lowest level since the 1960s.

Furthermore, throughout 1993, the UK's status, along *with the US, as one of the few* growing economies in the developed world made it a home for portfolio capital.

Sterling has also benefited from being on the foreign exchange sidelines over the past 18 months. Traders' focus has been on the breakdown of the narrow band ERM and on the dollar/yen cross-rate.

Over the medium term, there are probably two key factors for sterling. The first is whether Britain has conquered its old problems – high inflation and balance of payments crises – or whether the demons will return as soon as the *recovery hits its stride*. The second is whether the Conservative party is merely suffering its normal mid-term blues or is finally going to lose office.

The government has worked hard to try to create credibility for its economic policies after the ignominious departure from the ERM. A new monetary framework has been created, with the Bank of England at its forefront. Underlying inflation is now targeted at 1-4 per cent, with the aim of getting the rate into the lower *half of the range by the end of* the parliament.

The Bank writes quarterly inflation reports, is allowed to choose the timing of base rate changes and has its views aired in the minutes of the monthly monetary meetings. All this is designed to reassure financial markets that "steady Eddie" George, the Bank governor, is looking after their interests, rather than inflation-prone politicians.

The new arrangements have not gone without a hitch. February's decision to cut base rates by a quarter of a percentage point to 5.25 per cent was not received *well by the markets*, and may have limited the scope for further cuts.

Gilt markets have consistently signalled inflationary expectations of 4 per cent or so, indicating some scepticism about the government's ability to meet its target. Signs of a pick-up in the annual growth rate of average earnings will have confirmed bearish fears. Nevertheless, producer price figures and survey details, continue to show that inflationary pressures are subdued.

On the balance of payments problem, Mark Geddes, treasury economist at Midland Global Markets, says that while "recovery in Europe should increasingly help UK exporters, the size of the current account deficit following several years of below trend growth and a 10 per cent devaluation of the pound, remains a worry. The inaccurate nature of current trade statistics potentially disguises the true problem, and a prerequisite for sterling's ability to maintain a value above DM2.50 over the longer term will be a stabilisation in the trade deficit."

Trade *within the European* Union is now recorded under the Intrastat system, based on the value added tax returns, and this has led some to believe that the statistics are under-recording imports. Furthermore, official figures showing that exporters have been raising prices, rather than chasing market share, are contradicted by Confederation of British Industry evidence.

Other fundamental factors – economic growth and interest rates – may be moving in opposite directions. Keith Skeoch, director of research at James Capel, feels that the medium-term outlook for sterling is quite good. On interest rates he expects "German rates will get down to around 3 per cent on the back of sluggish growth and low inflation, while there is increasing evidence that we are close to the bottom of the base rate cycle in the UK. The pound should start to benefit from a positive interest rate differential."

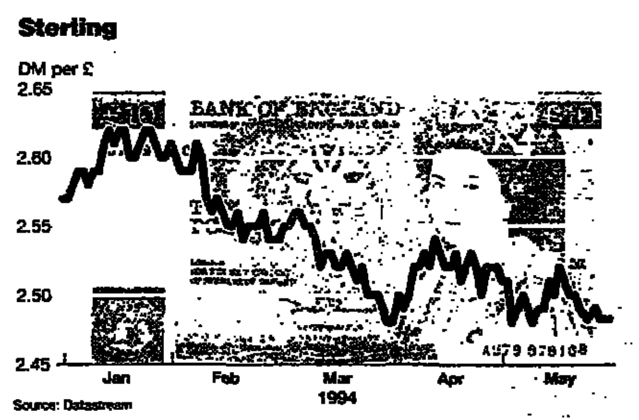
He also believes that rate differentials will help the dollar strengthen against the D-Mark, and adds that "sterling *normally does reasonably well in* an environment where the dollar is running". He believes the pound could climb to DM2.70.

However, because European countries are expected to come out of recession this year, Mr Geddes thinks that Britain's "growth advantage" will start to disappear.

The political outlook might not seem to matter, given that the government does not have to call an election until 1997. But, according to Skeoch, "the main uncertainty in the medium term is that Major stays and is perceived by the markets as a lame duck PM."

So pronounced is sterling's record of depreciation, that cynics will need overwhelming evidence to believe the bull case for the pound. That evidence, or the depressingly familiar bearish story, can only come when the UK is further advanced in its recovery, and cyclical factors have had their maximum chance to inflict damage on the inflation and balance of payments numbers.

Sterling



Source: Datastream

The economic recovery has helped the German currency, writes **David Waller**

Europe's 'anchor' still intact

Despite consensus among economists that the dollar should rise against the D-Mark during 1994, the German currency has proved stubbornly strong.

Economists put the D-Mark's resilience down to two factors – inherent weaknesses in the outlook for the US currency, coupled with increasing support from economic fundamentals for the D-Mark.

On the US front, economists cite a host of factors which led to dollar weakness, despite the likelihood of further Fed tightening of interest rates. These range from investors' demand for a higher yield on US securities to compensate for the risks of holding such investments after a period of high volatility in the US government bond market, to the perception that President Bill Clinton's administration considers it politically desirable to see a weaker dollar versus the yen to enhance the US's trading position relative to Japan.

While trade relations between Japan and the US do not directly touch the US currency's relationship with the D-Mark, the D-Mark strengthens by default as a result. The German currency is helped by the growing conviction that Germany is pulling out of its worst recession since the second world war. Expectations that the German economy is to endure a double-dip downturn – i.e. a lurch downwards this summer – have been contradicted by a mass of economic data suggesting that a more than modest recovery is under way.

Figures on order intake, exports and employment, coupled with increasingly bullish polls of business expectations and a spate of good news from the corporate sector, have changed the climate of expectations. One telling expression of this was the forecast in April from four out of five of Germany's leading economic institutes: they predict a pan-German growth rate of 1.5 per cent for the year, representing a slow but sure recovery. Financial institutions are even more optimistic: Dresdner Bank, for example, expects the economy to grow by 2 per cent.

The rosier outlook for the economy has forced the financial markets to revise their expectations on the scale and timing of further cuts in short-term interest rates. The rationale for the change in outlook is that recovery makes it more likely that the Bundesbank will start increasing interest rates again to check the inflationary impact of better than expected growth.

Despite economists' expectations of further cuts in the discount rate during the year, euromark futures – which give rates for three-month borrowing – tell a more pessimistic story. They suggest that the interest rates will reach a low point for the current monetary policy cycle in September this year at 4.7 per cent, compared to the present 5.1 *per cent* three-month rate. Thereafter rates will rise to 5.60 per cent by the end of next year, the futures market suggests, a reversal of earlier expectations that rates would carry on falling towards 4 per cent within 1994.

"This represents a sizeable correction in *short-term rate* expectations," comments Mr Joachim Fels at Goldman Sachs in Frankfurt.

With German interest rates set to rise again as of the turn of the year, and the German economy pulling out of the doldrums, it is not surprising that the D-Mark's status as a "safe *haven*" currency is intact. This

Continued on page 3

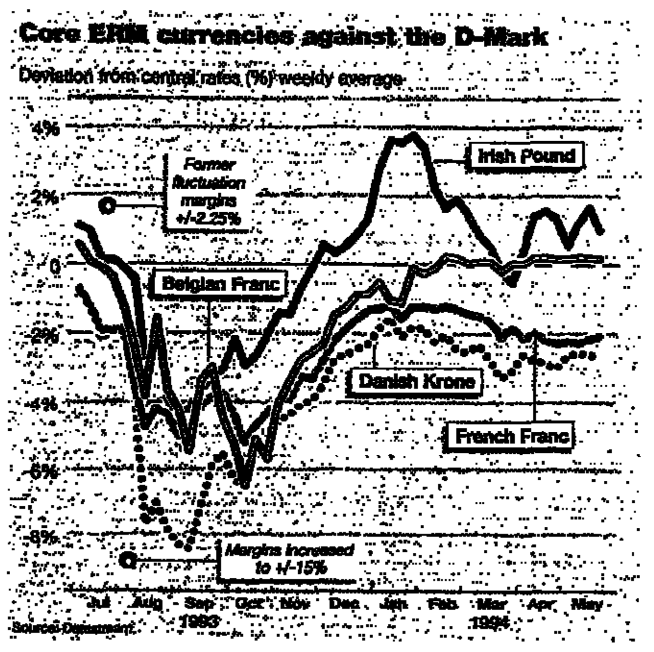
Contrary to expectations, the EMS has been remarkably calm, says **Peter Norman**

Emu hinges on political will

Central bankers, in the words of William McChesney Martin, a distinguished former chairman of the Federal Reserve Board, are the people who "take away the punchbowl just as the party is getting merry".

Last summer, central bankers and finance ministers from the 12 European Union countries took away the biggest ever punchbowl from the global foreign exchange markets.

In the early hours of Monday, August 2, 1993, they widened the fluctuation margins in the exchange rate mechanism of the European Monetary System to 15 per cent either side of the EMS bilateral central rates from 2.25 per cent and 6 per cent previously. That decision followed a year of crisis in the EMS that had seen sterling and the Italian lira leave the system and numerous devaluations of other member currencies.



As the officials left Brussels after their difficult emergency meeting that weekend, few observers were prepared to bet that the EMS had much of a future. The new margins were so wide that they almost constituted a free float. It was generally expected that most of the currencies linked to the D-Mark through the ERM would depreciate sharply. With the EMS in apparent disarray, the European Union's ambitious plans for economic and monetary union by 1997 at the earliest, and failing that, by 1999, also seemed doomed to fail.

But contrary to expectations, the EMS has been remarkably calm for most of the past 10 months. France and the other core members of the ERM resisted the temptation to follow the UK example of slashing interest rates and allowing a depreciation of their currencies against the D-Mark. After an initial weakening, virtue was rewarded with the gradual return of the French franc and other core currencies to levels that were either within or close to the old intervention floors against the D-Mark.

Although the ERM is no longer perceived as a "glide path" to Emu, the return of calm to continental exchanges has revived interest in Emu. Few expect Europe will have a single currency and central bank by the earliest deadline of the Maastricht Treaty, but the prospect of Emu by the end of the century is no longer laughed out of court.

Stage two of the Maastricht process has been under way since the beginning of this year. This involves intensified co-operation on economic policy-making among the 12 through the council of economics and finance ministers. In addition, the European Monetary Institute, which may be the embryo of the planned European central bank, began operating at the beginning of this year and is engaged on technical preparations for the third and final stage of Emu.

However, the obstacles to Emu are still formidable.

■ At a practical level, the EU has done little to ensure that bank notes, coinage or payments systems will be adapted in time for the proposed introduction of a single currency.

■ Politically, both the UK and Denmark have secured the right not to join Emu.

■ Economically, only Luxembourg of the 12 EU members at present meets the tough convergence criteria that the Maastricht treaty sets as a condition for entry to stage 3.

Of the criteria, the targets of low inflation and low long-term interest rates appear relatively unproblematical for most member states.

Because policy makers generally agree that it would be folly to return to the old ERM narrow bands following the experiences of 1992 and 1993, it is also possible that EU states will opt for a generous interpretation of the requirement for exchange rate stability before joining Emu. The condition that entrants to Emu should have stable exchange rates within the "normal bands" of the ERM for two years prior to joining could be construed to cover stability within the present 15 per cent bands.

But even though the Treaty allows some flexibility, the requirement that the EU states control their fiscal deficits and overall debt looks daunting.

Under the criteria, a country is supposed not to become an Emu member if its fiscal deficit exceeds 3 per cent of gross domestic product or its stock of government debt is more than 60 per cent of GDP. The latest Commission forecast, published last month suggested that only three countries – Ireland, Luxembourg and Germany – would meet the deficit rule by the middle of the decade. At present, a majority of EU members exceed the debt guideline with four countries having stocks of debt that are more than 50 per cent in excess of the Maastricht limit. Belgium and Italy, two members of the original EEC, have debt to GDP ratios of 138 per cent and 116 per cent respectively while Greece and Ireland have debt of 114 per cent and 93 per cent of GDP.

Henning Christophersen, the commissioner for economic and monetary affairs, has predicted that during 1997 a majority of present EU members should fulfil the criteria "with a return to normal growth".

But given the EU's relatively high real interest rates and typically moderate growth rates, it is hard to imagine Belgium, Italy, Greece and Ireland ever being able to meet the 60 per cent debt to GDP ratio. Meanwhile, senior members of the Bundesbank central council and the German constitutional court have taken public positions against any weakening of the debt and deficit criteria to ease entry to Emu for member states.

So far, the political will of the "hard core" of EU members to move towards Emu has been remarkably strong. The project, too, is better anchored than previous plans for a single currency and central bank because the Maastricht process has the backing of a treaty.

But there have been signs this year that tight EU integration is losing support among electors in several countries including France and Germany.

Much will depend on the lessons, if any, that policy makers draw from this month's elections for the European parliament and the outcome of the elections for the German national parliament in October and French presidential elections in early 1995.

When the EU member states convene a planned inter-governmental conference in 1996 to discuss the progress being made towards Emu, improved economic conditions in continental Europe could give the project a fair wind.

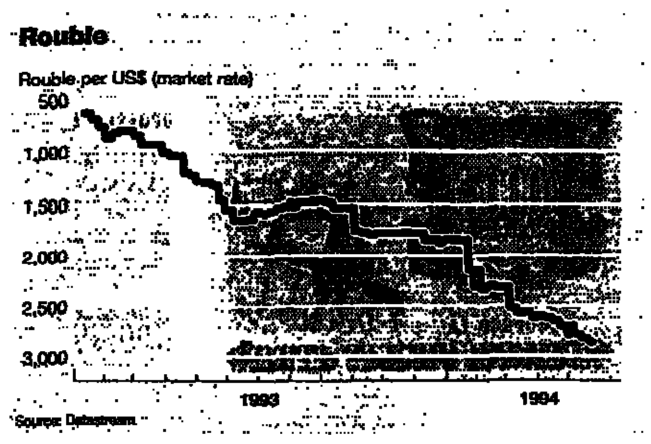
But the big decisions on whether Europe gets a single currency and central bank for its next millennium will depend on politics.

The former communist countries

Beacons in the monetary haze

Understanding of the crucial importance of a sound currency to the success of economic reforms has grown rapidly among economic policymakers in the former communist world over the past 18 months.

The latest converts have been among the former practitioners of the planned economy who now govern Russia. "A strong rouble is the indispensable condition for the revival of the Russian economy," Victor Chernomyrdin, the Russian prime minister, recently told FT readers in a lengthy article which stressed his government's commitment to market reforms, albeit tailored to the specific and extraordinary circumstances of a giant country whose inherited distortions are also on an epic scale.



The attention of Russia, largest of the former communist states, has been attracted partly by the successful creation of independent national currencies in several of the new states released from Soviet control over the past five years. Three currencies in particular stand out like beacons in the monetary haze left behind by the collapse of the Soviet Union and the disappearance of the transferable rouble. These paragons of stability, all well launched on the path to full convertibility, are the Czech crown, the Estonian kroon and the Slovene tolar.

In each case the countries concerned were the most westerly and most developed parts of the former Soviet bloc, or of former Yugoslavia in the Slovene example, and enjoyed specific advantages. But all three share a strong political commitment to sound money as the basis for a rational economy and thriving trade.

The Czech crown has been remarkably stable against the dollar and other hard currencies since 1991. With capital inflows of $1.4bn last year, balanced budgets and low foreign debt the crown is being groomed for full convertibility by 1995. The Estonian kroon, which is umbilically linked to the D-Mark, is managed on a currency board basis by the central bank which recently pledged to keep the currency fixed at eight kroons to the D-Mark until at least the turn of the century. The Slovene tolar is similarly backed by steadily rising hard currency reserves now that Slovenia no longer has to subsidise the rest of Yugoslavia.

The importance of a sound currency was first underlined by the architects of the Polish stabilisation programme in 1990. Their reforms made the Polish zloty internally convertible and managed to halt hyperinflation. Heavily undervalued at the start of monetary reform, the zloty steadily appreciated for 18 months until the first of a series of devaluations. The currency was last formally devalued in August last year by 8 per cent but regularly loses value by 1.6 per cent a month against a trade-weighted basket of currencies. This "crawling peg" devaluation is needed to compensate for inflation which, although falling, hovers around 30 per cent annually.

Hungary, which inherited the largest per capital foreign debt in the region, has also made recourse to forint devaluation to maintain the competitiveness of exports but has managed to attract foreign investment which has allowed a strong growth of reserves despite a worrying rise in the current account deficit in recent months.

With their shift in trade to western markets and commitment to continuing market reforms and privatisation, however, the economies and currencies of central Europe are on track to becoming "normal" by the end of the decade. They are being followed, with a time lag, by Albania, Romania and Bulgaria. In recent months the Romanian central bank has created the conditions for internal convertibility of the Romanian lei by raising domestic interest rates and taking other measures to close the gap between official and black market exchange rates. The Bulgarian lev by contrast came under pressure towards the end of last year as a reflection of higher than expected inflation and declining hard currency reserves.

The picture is much more complex in the states of the former Soviet Union. The disintegration of the rouble zone, originally opposed by Moscow and the IMF, was the logical consequence of the emergence of new states. It has led to the emergence of a plethora of new currencies such as the Kyrgyz som and the Kazakh tenge alongside slightly longer established currencies such as the Ukrainian karbovanets. All the former Soviet currencies are traded on the Moscow Interbank Currency Exchange while three, the karbovanets, the tenge and the Belorussian accounting rouble are also traded on the central Moscow stock exchange.

The currencies of the former Soviet Baltic states, led by the Estonian Kroon, are in a class of their own with both the Latvian lats and the Lithuanian litas moving to modified forms of currency board management. But the fate of most other post-Soviet currencies accurately reflects the lack of consistent reform and the high inflation resulting from loose monetary policies.

Some, like the Armenian dram, the Azerbaijani manat and the Georgian coupon, have been even further devalued by war and civil strife. Faced with hyperinflation and inconvertible currencies trade in such countries has been largely reduced to smuggling and barter and those with access to hard currencies have become the new rich.

If Mr Chernomyrdin's new-found commitment to sound money does lead to tough restrictions on government subsidies to hard-pressed military plants and collectivised agriculture and adherence to lower inflation targets, the Russian rouble could strengthen after its long decline. After all, the rouble is backed by the enormous natural resources of a Russia which is no longer obliged to subsidise the less developed parts of the former Soviet empire.

Anthony Robinson

Continued from page 2

Anchor still intact

is true in respect of the US dollar – and in Europe where the D-Mark has in the medium and long-term staged a dramatic appreciation against other currencies.

Despite doubts, the D-Mark has preserved its role as the "anchor currency" for Europe and the currencies belonging to the slimmed-down European exchange rate mechanism.

The appreciation of the D-Mark against certain European currencies since the end of 1991 (up 29 per cent against Spanish peseta, 27 per cent versus the Italian Lire and 14 per cent against the pound) has worsened the competitive position of German industry – but the corrective in industry's favour will come not via a depreciation in the nominal value of the D-Mark. Germany will strive to regain its competitiveness through an improvement in labour costs.

FOREIGN EXCHANGE 4

Philip Gawith checks the amount of interest in exotic currencies in 1994

Rude awakening for investors

After the rather giddy romance between investors and exotic currencies in 1993, the first quarter of 1994 has proved to be a chastening experience. The attraction lingers, but investors are now wary and more mature than they were only six months ago.

Last year interest in exotics, particularly in south-east Asia, soared on the back of the emerging markets story. The motor for this growth was the internationalisation of US pension and mutual funds, partly a secular trend, but also a function of the search for higher yields at a time when US interest rates were lower and domestic equities expensive.

Two events in the first quarter combined to spoil the story. One was the carnage in international bond markets. The liquidity pressures this generated – for example, the need to raise cash against losses suffered in European bond markets – spilled over into selling pressure elsewhere. Unhappily, as investors were to discover, exotic currencies are not so-called for nothing, and selling out of a currency was not as easy as some assumed.

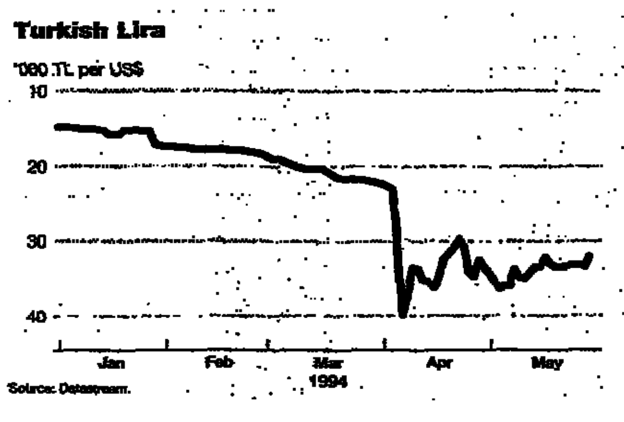
Jon Bowen, head of the exotics desk at Midland Global Markets, comments: "People couldn't work out why they could enter the market over five days, but not exit in one."

Perhaps fittingly, the second event involved Bank Negara, the Malaysian central bank. Ironically, given the bank's reputation until recently as one of the foremost speculators in world currency markets, it decided to step in to curb the influence of speculators on the Malaysian ringgit. The effect of Negara's intervention was to cause the ringgit to fall, between Christmas and New Year, by more than 5 per cent against a basket of currencies, inflicting heavy losses on many investors.

The discovery, says one broker, "that the central bank could call a stop and change the rules, came as a big shock to a lot of people". Negara, he says, was "the big stick that taught people these currencies are not what you are used to. You can't just drive them around with flows of money".

For US fund managers in particular, the newest kids on the block, and many naive in the ways of the developing world, these events were a rude awakening. Mr Bowen notes that the Negara episode has had a "noticeable impact on trading", particularly in the Thai baht and the Indonesian rupiah. He says turnover in the five leading Asian currencies – the Hong Kong dollar, Malaysian ringgit, Thai baht, Indonesian rupiah and Singaporean dollar – has, if anything, shrunk in the first half of 1994.

Negara, of course, is not alone in the hands-on management of its currency. Singapore is also a country which does not want its currency internationalised, in the sense of allowing the free market to determine the rate.



Exotics, of course, mean more than south-east Asia alone. Indeed, it encompasses any currency beyond the dollar, yen and those of western Europe. The other main exotic blocs are Latin America, with eastern Europe also an emerging area. Investors in these and other areas also come armed with a healthy stock of cautionary tales.

An obvious recent example concerns the Turkish lira, where concern about government economic policies caused the currency to fall by more than 50 per cent against the dollar during the first quarter.

Latin America remains the almost exclusive preserve of US banks, which have something of a "backyard" perspective on the region. Trade is handled mostly from New York. Volumes, however, are still tiny compared to Asia.

Albert Maasland, managing director at Chase Manhattan in London, says eastern Europe is probably on a par with Latin America, but business is largely one way – money going into the currency for local investment. "We can buy the local currency, but can't sell it for foreign currency. Often this can only be done through a local bank." He adds: "We see lots of opportunities there, but they are years behind the Asian market."

The problem south-east Asian countries have faced is that the clamour to invest has caused their currencies to appreciate. This obviously effects export competitiveness, and countries such as Singapore and Malaysia, which have long-term economic development plans, do not like outsiders coming along and upsetting the environment.

Notwithstanding recent tribulations, for those who know the market – Chase, Standard Chartered, Barclays, Midland, Natwest and Citibank are the main players in London – it remains an exciting prospect. Mr Maasland says they continue to see "dramatic growth in trading, especially in Asian currencies". He estimates that trading activity in the five Asian currencies rose 50-100 per cent year on year.

"In a number of them we will quite regularly see $50m-$100m transactions, which was not the case two or three years ago," says Mr Maasland.

It is not only a case of greater volumes. There is also more use of foreign exchange derivatives, though immature domestic capital markets still act as a constraint on trading.

Investment into the region is likely in future to be more cautious. "The trend is still there, but the problem was that it was a fashion," says Mr Bowen. "We've been through the boom times, now times are quieter. I do think we will see it grow again, but not at the rate of last year for a while."

Until liquidity in some of the markets improves, investors are likely to limit the size of their deals. Liquidity, in turn, will improve as deregulation progresses.

As David Clark, treasurer Europe at HSBC, notes: "Deregulation is the friend of the foreign exchange market – it encourages people to operate across borders." The other side of this coin, however, is politics and as Mr Clark observes: "Politics still plays a bigger part in foreign exchange than economics does."

As the story of the yen in 1994 shows, you do not have to go to developing countries to discover this truth. But it is especially true with exotic currencies in the developing world, where politics still has the upper hand over markets.

Peter Norman looks at the pressures for greater stability in currencies

Quest for order continues

The world has now been living for 21 years with a monetary system dominated by floating exchange rates. But there continues to be a yearning among some policy makers, active and retired, for more order, reminiscent of the currency stability that existed under the post-war Bretton Woods system of fixed exchange rates.

Despite all the problems suffered by members of the European exchange rate mechanism in 1992 and 1993, finance ministers from continental Europe have put greater exchange rate stability back on the international monetary agenda.

Announcing this step after the spring meeting of the policy-making Interim Committee of the International Monetary Fund, Philippe Maystadt, the Belgian finance minister and committee chairman, said the Fund's executive board had been asked to study, and report back by October, "possible ways to introduce a greater degree of discipline in the present exchange rate system".

Around the same time, Helmut Schmidt, the distinguished former chancellor of Germany, called for Franco-German co-operation to restore orderly currency relationships for Europe against the dollar and yen "that were lost at the beginning of the 1970s".

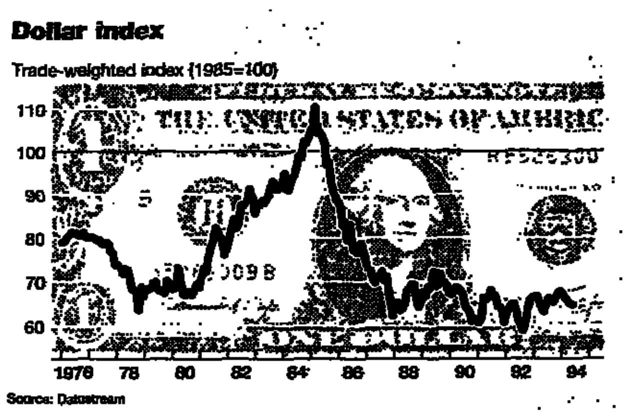
Other eminent former policy makers are beavering away in a grandly named Bretton Woods Commission which is due to report next month on the 50th anniversary of the Bretton Woods agreement. Their objective is to "formulate and agree on proposals for the reform of the international monetary system, the International Monetary Fund and World Bank which will help set their course as the 21st century approaches".

At first sight there is much merit in the goal of greater exchange rate stability. More fixed exchange rates are of obvious benefit to international travellers and businesses that import and export. In spite of sophisticated hedging techniques, it is likely that exchange rate volatility hinders international trade and investment. Long-term misalignments, such as the big appreciation of the US dollar in the early 1980s, distort investment decisions and can foster protectionism.

Moreover, with hindsight, the period of fixed exchange rates in the industrialised world that followed the second world war looks like a golden age. Growth was faster than it has been since the collapse of Bretton Woods in 1973 and the industrial countries, which now support a 35m-strong army of unemployed, could boast of full employment in the 1950s and 1960s.

But it was also an age of strict controls over capital movements in which comparatively few rich countries called the shots. Changes in the world economy since the early 1970s make it very difficult to imagine a successful return to Bretton Woods.

When the Group of Seven leading industrial countries tried to stabilise their exchange rates through the Louvre Accord of February 1987, some, notably Japan and Britain, found that their domestic economic stability was undermined.



Long-term misalignments, such as the big appreciation of the US dollar in the early 1980s, distort investment decisions and can foster protectionism

In Japan's case an excessively easy monetary policy, that was intended to prevent appreciation of the yen, fuelled the now notorious "bubble economy". In Britain, Chancellor Nigel Lawson's struggle to prevent sterling appreciating against the D-Mark hindered a much needed tightening of monetary policy to curb a growing boom. The result was a rapid increase in UK inflation, followed eventually by soaring interest rates and a very damaging recession.

More recently, massive free-flowing capital movements triggered crises in the European Monetary System in 1992 and 1993.

After such experiences, it is not surprising that there are no official moves afoot to replace the present "non-system" of floating exchange rates with a more orderly system of fixed parities.

For starters, the adoption of narrow fluctuation bands akin to the Bretton Woods system of near stable exchange rates would require countries to reach agreement on appropriate parities. This, says Morris Goldstein, deputy head of the IMF's research department, "would be no easy task". Still more problematic would be the subordination of monetary policy to exchange rate goals, that would be required if such a system were to survive.

But if fixed exchange rates are not the route to greater discipline in the international monetary system, what is?

An indication came in the response of Michel Camdessus, the IMF managing director, to Mr Maystadt's announcement in April. Mr Camdessus said his "instinctive reaction" was that there was more prospect of addressing exchange rate instability at the world level through strengthened surveillance and co-ordination of economic policies than through co-ordinated intervention in the foreign exchange markets.

In other words, the best way to exchange rate stability begins at home. This maxim is likely to be endorsed by the Bretton Woods Commission, when it reports in July, and the IMF executive board when it submits its findings to the Interim Committee's next meeting in Madrid in October. It would be surprising if both groups did not lay great stress on the need for convergence of inflation rates, greater savings and domestic investment and determined action to reduce fiscal deficits as the path to greater currency stability.

It is unclear, however, whether the two bodies will go so far as to suggest that such domestic-oriented approaches could one day lead to "target zones" in which the monetary authorities would keep the principal trading currencies – the dollar, D-Mark and yen – within relatively narrow ranges of each other.

Last month Mr Camdessus expressed his doubts. As well as a high degree of convergence and increased attention to macroeconomic co-ordination, achieving exchange rate stability through target zones would require an "exceptionally high degree of collective determination . . . given the high cost that may have to be paid for this in terms of growth and employment in the short term."

Such collective determination does not exist. It was "not accepted to the same degree in the three major currency areas of the world," he said.

Mr Goldstein is doubtless right when he says that a fundamental reform of the international monetary system is "not on the near-term horizon".

But Mr Maystadt's initiative in the April Interim Committee and the musings of men such as former chancellor Helmut Schmidt show it is a subject that will not go away.

This time around, speculators have lost heavily, writes Philip Gawith

Revenge of the central banks

After the halcyon years of 1992/3 when bull markets in financial assets and one way bets in the ERM swelled foreign exchange trading profits, 1994 has proved to be more challenging.

In contrast to the earlier period when the ERM crises saw currency markets dominate the headlines, the recent ructions in financial asset markets did not spill over directly into currencies. But the overall nervousness, as investors contemplate whether a bear market is under way, has not helped foreign exchange trading rooms which depend on cross-border deals for their volumes.

Indeed, there is a sense in which 1994 has witnessed the revenge of the central banks. In 1992/3, many of them were humbled by speculators who profited handsomely at the expense of taxpayers. This time round it has been the "speculators" who have lost heavily, with just about everyone appearing to have got the dollar wrong against the yen.

Up-to-date national and global foreign exchange trading figures are not available, but the overall picture is one of volumes having returned to roughly the levels before the ERM shake-up (though some claim volumes are as high as ever).

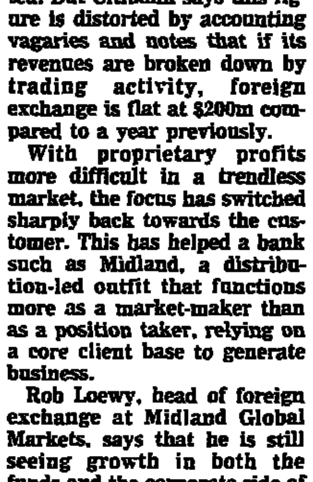
A consultant to a leading European bank active in foreign exchange argues that the total volume of foreign exchange business in London, easily the largest market, grew by 10 per cent last year.

Although there have been periods of considerable intra-day volatility, the general complaint is that trading has been trendless, with foreign exchanges taking their tune from other asset markets.

The one glaring exception, of course, has been the steady downward path of the dollar, with most investors on the wrong side of the trend.

Profit trends are also not easy to determine. UK banks do not report on a quarterly basis, while US banks tend not to disaggregate their trading revenues.

In general, though, those banks which rely more on an established client base than own-account trading are likely to have done better. And as the first quarter results of leading US banks like J.P. Morgan, Bankers Trust and Citicorp made clear, trading revenues were sharply lower.



Julian Simmonds: hopes to standardise dealing rooms

Within these figures, foreign exchange revenues probably fell proportionally less than bond and equity revenues. Banks appear to have lost most of their money during the first quarter in emerging market securities and European bonds.

The two bits of hard information about 1994 trading come from Chase and Citibank which show a separate foreign exchange revenue figure. Looking at the income line, Citibank's revenues fell to $66m from $156m in the fourth quarter and $240m a year ago. At Chase, the comparable figures were $85m, compared to $75m in the fourth quarter and $103m in the first quarter of 1993.

Citibank's figures form the basis for a widely-held market view that the industry leader performed worse than expected. But Citibank says this figure is distorted by accounting vagaries and notes that if its revenues are broken down by trading activity, foreign exchange is flat at $200m compared to a year previously.

With proprietary profits more difficult in a trendless market, the focus has switched sharply back towards the customer. This has helped a bank such as Midland, a distribution-led outfit that functions more as a market-maker than as a position taker, relying on a core client base to generate business.

Rob Loewy, head of foreign exchange at Midland Global Markets, says that he is still seeing growth in both the funds and the corporate side of the business. Foreign exchange earnings, he says, were also better in the first quarter of 1994 than the same period in 1993.

Chris Deuters, head of foreign exchange at Lehman Brothers, says although the first quarter of 1994 was a difficult one, the aim remains the same: to use foreign exchange as a separate asset and investment class, with a premium on the relationship with the customer. It is a case, he says, of "back to basics", of getting close to the client to understand his needs.

With "central banks no longer in the middle, dishing out taxpayers money", says Mr Deuters, there is a greater premium on relationships and good traders. Getting close to the customer is hardly novel, but "it's not the originality of the idea that differentiates the bank. It's the execution."

Another key challenge he stresses is the globalisation of the business. "Clients' risk doesn't end at 5pm, so you have to be global." Putting this operation together, without having multiple trading rooms in the same time zone, is an important task.

For Julian Simmonds, managing director foreign exchange and money markets, Europe at Citibank, a key difference between 1994 and 1993 is the shift in emphasis between costs and revenues. Whereas business was so hectic during 1992/3 that managing the huge turnovers was a full-time activity, the quieter period offers opportunities to look at costs.

It also allows greater time for strategic thinking, such as how to embrace the challenge of emerging markets.

In terms of costs, Citibank is looking at whether it can tidy up its operations on the process and technology side. It has now centralised the back-office function for clearing its European business in London. Mr Simmonds hopes also to standardise dealing rooms. "I've got to believe that there should be much more commonality among our systems. The days are gone where every branch can have 100 per cent of what it wants."

He is quick to add, however, that "this is not a revolution. It's an evolutionary process. Ask the questions, and then try and change things slowly."

Mr Simmonds is also concerned about the "effervescent" state of the labour market. "Packages are being offered as rich as at the height of the boom. I find that strange. Market participants have failed to recognise that things are changing. People need to become more realistic about what is attainable."

Another important challenge which all businesses face is the increasing integration of foreign exchange, capital market and derivative functions. "Customers require solutions that cut across the products," says Mr Simmonds. "You have to think more broadly."

Quieter times need not signal lower profits, as Chase's first quarter performance shows.

David Clark, treasurer Europe at HSBC, adds: "You don't need a lot of big moves to make money. Foreign exchange dealers can live quite easily with the volatility we have."

What about the future? Mr Simmonds comments: "Foreign exchange is in transition. I suspect bitter disappointment for those who are gearing up to face the last two years again. I don't think any of us have had to manage against this backdrop before."

Philip Gawith discusses the progress made by electronic brokerage

Technology on the march

To the untrained eye the change is indiscernible, but in dealing rooms across the world, electronic brokerage is slowly becoming part of the foreign exchange landscape.

The fondly nurtured stereotype of brokers, resplendent in loud braces, bawling down telephones as they barrel vast sums of money around the world is not under serious threat. But the trading desks of large banks are increasingly acquiring automated dealing systems which simulate the services offered by traditional voice brokers.

It is early days yet, and the market share of electronic brokerage is still very small. It also remains to be seen whether there is space in the market for the existing three operators. But there is a clear sense of technology on the march, with no compelling reason why the broking community should prove immune to change.

The most significant recent development was the launch last September of the Electronic Broking Service (EBS), a system backed by 13 leading banks in foreign exchange. This followed on the earlier launch of two other electronic broking systems: Dow Jones Telerate launched the Minex system in April 1993, and the launch in May 1992 by Reuters of the 2000-2 dealing system.

EBS's origins were essentially defensive, with the banks anxious to prevent Reuters assuming such a dominant market position that it would be able to influence the way in which the market functions.

It already had a strong hold on the foreign exchange markets with about 50 per cent of global foreign exchange turnover transacted through its main dealing systems, Reuters 2000-1 and Reuters Monitor.

Although EBS was essentially set up in opposition to Reuters, the real competition lies with the voice broking community. Brokerage still plays an important part in currency dealing. At the time EBS was conceived, and electronic brokerage is too immature for these figures to have changed substantially, roughly 60 per cent of deals in the currency market were done by traders in two banks – or counterparties – who call each other up directly. The remainder were done by brokers who bring together buyers and sellers.

Screen test: electronic brokerage is slowly becoming part of the foreign exchange landscape

Figures released by EBS suggest it is making solid progress. It is now starting to achieve consistently more than 2,000 trades a day. For the week ended May 6, most trades (59 per cent) were in the $/DM cross, with other good performers being DM/Swiss franc and DM/French franc.

The number of users has also increased to 188 bank branches in 18 cities. Since January, 48 new counterparties have been added, and only 10 of these are branches of the 13 EBS partnership banks.

EBS is keen to resist the idea that it exists only because it can attract captive business from its shareholders. It notes that partner banks now represent less than 50 per cent of total users on the system. Reuters, meanwhile, announced recently that it had passed the 5,000 matches/day mark on the 2000-2 system. It is found in about 550 bank branches, and Portugal will soon become the 22nd country where 2000-2 systems are used.

Minex has a strong position in Asia and claims to transact 6 per cent of the daily broker turnover in dollar/yen in Tokyo.

The voice broking community claims that the influence of electronic broking has so far been negligible. Indeed, one leading broker says that in the case of the D-Mark/franc pair, "we have found since they established themselves, our turnover has gone up as well". He concedes that the effect would be different in a more established currency pair, such as dollar/D-Mark.

Although electronic brokerage systems claim that they can cut brokerage costs, brokers argue that currency dealers are more concerned with generating turnover than controlling overheads. Brokers also believe the human factor should not be underestimated. "A computer can't take you out for a drink after work," quips one. Some critics have wondered whether bank dealers would use EBS were it not for the fact that they have a stake in the system. Users, however, are adamant this is not the case. Tim Broome, assistant director at Barclays global foreign exchange, comments: "EBS on our dealing floor currently stands on its own merits."

Mr Bartko is confident that EBS is succeeding in terms of the key criterion that determines the success of a broker: the liquidity it generates. This, in turn, is a function of having prices to quote, to a critical mass of counterparties. He argues that EBS has generated liquidity which people are prepared to pay to have access to. This is particularly so in the dollar/D-Mark, D-Mark/Swiss Franc and D-Mark/French franc crosses. EBS has been less successful in generating liquidity in the other five currency pairs it offers. Mr Bartko says he is at a loss to explain why some currency pairs have succeeded better than others.

Traders are generally quite complimentary about EBS, with two caveats. First, younger traders tend to be more receptive to the new technology than older ones. Indeed, many in the market cite the cultural challenge of asking people to change deep-seated work habits as the most serious challenge facing electronic broking.

Second, EBS is used more in quiet markets. In heavy trading, the inclination is still to revert to habit and trade on established systems, or with voice brokers.

One early division between EBS and Reuters is that the former, understandably given its backers, has a dominant position among the large banks in the interbank market, while Reuters has a strong position among their counterparties, especially the retail market banks. "They have got the market-makers and we have got the hitters," says Bob Etherington, international marketing manager at Reuters.

Naturally enough, both EBS and Reuters claim that they are making inroads on the other's market. Certainly, there are examples of banks who use more than one of the electronic systems.

Philip Gawith discusses the role of hedge funds

'Cowboys' of the markets

At the beginning of 1994, there were at least two certainties in the eyes of most global asset managers: the US dollar and European bond markets, had to rise.

It is a matter of history, of course, that events turned out otherwise, with most fund managers reaching the end of the first quarter nursing battered balance sheets and wounded egos.

In the search for scapegoats, the finger was quickly pointed at the hedge funds – large pools of speculative capital, whose predatory trading instincts and penchant for highly leveraged trade has conferred on them a reputation as the cowboys of modern financial markets.

Figures about the size of the hedge fund industry are notoriously vague, mainly because many hedge funds are organised so as to avoid the application of most securities laws, and hence exist in something of a regulatory black hole.

Republic New York Securities, a firm that tracks hedge fund activities, estimates that there are more than 800 hedge funds representing \$35bn-\$40bn capital. These estimates were largely corroborated by recent testimony from Barbara Pedersen Holum, acting chairman of the Commodity Futures Trading Commission (CFTC), at hearings on hedge fund activities held in the US by the House Banking Committee. The CFTC regulates US commodity futures and options markets and has information on most hedge funds of any size that use these markets. CFTC data indicates a total of \$31.5bn under management of "self-declared" hedge funds, and \$48bn under management by all listed investment partnerships combined.

These figures need to be kept in context. The total net value of the regulated mutual fund industry in the US was \$2,100bn at the end of 1993, with at least 10 mutual funds having a net asset value greater than \$9bn. Other US institutional investors had, at the end of 1993, \$6,500bn in assets under management.

Estimates by John LaWare, a governor of the US Federal Reserve, are that perhaps a dozen hedge funds have a net asset value greater than \$1bn with another 25 having capital between \$100m and \$1bn. George Soros's group is believed to be the largest with about \$9bn of capital.

How active are hedge funds on foreign exchanges? Testifying before the House banking committee, Mr Soros provided the following appraisal: using 1992 data from the Bank for International Settlements, showing global net turnover of the nine largest foreign exchange markets to be about \$946bn per day, "all hedge funds in the aggregate control at most 1/180th (or 0.005 per cent) of the daily global trading volume in the foreign exchange markets".

This is based on the assumption that Soros Fund Management (SFM), on an average trading day in foreign exchange, might engage in transactions with a total value of around \$500m; and that SFM constitutes about 15 per cent of the money invested in hedge funds.

Against this rather benign view of hedge funds, two points must be made. First, their ability to leverage their funds, and willingness to take big bets, means that some of their trades can be very large indeed. Also, despite their self-styled contrarian instincts, hedge funds do often end up trading as a pack. In such cases their ability to move markets is beyond dispute.

But Mr Soros does have support for his view that the influence of hedge funds can be exaggerated. The CTFC, for example, found that the more prominent hedge funds "have not contributed to volatility in CFTC regulated markets". The CFTC examined its records of hedge fund activity during February and March, when financial markets experienced considerable volatility, and found it "not significant".

More specifically, on February 14, when the US dollar plunged to a six-month low against the yen, hedge funds "were not active participants in yen futures on this day, none appearing among the 30 largest net traders..."

Arguably as important a development as hedge funds has been the mushrooming of proprietary trading activities by leading banks – that is, trading done on their own account where capital is at risk.

Henry Gonzalez, chairman of the House banking committee, noted recently that bank trading activities were "growing at an uncontrolled, rapid pace. At the top 10 bank holding companies, trading account assets have increased about 400 per cent in the past four years and now top \$140bn."

Insofar as regulators are concerned with the threat of financial instability, it may well be that they will in future concern themselves as much with banks' proprietary trading, and the activities of institutional investors, as with hedge funds. Mr Soros argues that "trend-following behaviour" is necessary to cause a market crash, and that this is most likely to come from institutional investors in general, and mutual funds in particular, aggravated by hedging practices associated with derivative instruments.

Large hedge funds like to argue that their contrarian instincts actually make them a smoothing influence in financial markets. This view also enjoys support from regulators. Indeed, the Fed's Mr LaWare told the House committee that "the activities of hedge funds add depth and liquidity to financial markets and can be stabilising influences. It would be wrong to single out hedge funds as being responsible for moving global prices of financial assets or as being a major source of risk in financial markets."

It may be that markets have already done the regulators' work for them. Indeed, if reports about the extent of hedge fund and proprietary trading losses in the first quarter are to be believed, then a pruning process is already well under way. Hedge funds and proprietary traders have still to prove themselves in bear markets.

Profile: RICHARD DESMOND

Down-to-earth treasurer

Richard Desmond, group treasurer of BAT Industries, the tobacco and insurance group, sees a lot of bank presentations in his London office.

When, during a presentation earlier this year, one banker airily talked about "the client's views" on foreign exchange movements, Mr Desmond interrupted him. "We don't have views, we have exposures," he said. "And if we don't have an exposure, we don't have a view."

That epitomises the down-to-earth conservative approach of Mr Desmond, who lectures on foreign exchange management and was a former president of the Association of Corporate Treasurers.

Mr Desmond points out that, at BAT, which had sales of £13bn last year, "the size of the organisation is large in relation to the size of the foreign exchange risks". This, he believes, leads to a couple of advantages in risk management. "We don't have to keep pressing for the last farthing in savings. And we can often take more conservative risk management approaches."

The treasury department may be centred in the UK but Mr Desmond has only a small team of five professionals at headquarters. Nevertheless, he claims that "the quality of our treasury staff is as good as any in London". His team both deals and devises the foreign exchange strategies.

The group reports to shareholders in sterling but is a worldwide operation, with costs and revenues in many different currencies. "We tend to be long dollars, yen and Deutschemarks" says Mr Desmond. Exposures across the group are netted so that a subsidiary which has, for example, dollar costs can obtain dollars from the head office at a budget rate.

As the BAT treasurer points out, there are four potential elements of a company's foreign exchange risk: the third party transactions of operating groups; non-remitted profits of subsidiaries; dividends and other financial flows to the core; and foreign currency assets.

On third party transactions, Mr Desmond says that "every subsidiary should be managing its foreign exchange exposure" although he points out that most subsidiaries' exposures should not be large, since they have local cost factors.

The subsidiaries are not without guidance on how they should handle their foreign exchange dealings. BAT runs a course in which all financial staff are trained in the style of the group. The head office also has a range of policies which cover what the subsidiaries can do, and substantial transactions have to be approved at the sub-operating group level.

Non-remitted profits, which are being retained by subsidiaries for future growth, are not hedged. They are recorded by the parent company after having been translated at the average exchange rates for the year.

Dividends and other financial flows are managed actively but conservatively, according to Mr Desmond. "When volatility goes up, our strategy gets more conservative; when it goes down, we become slightly more active. If volatility goes down a bit, we use an option strategy. The cost is lower if the volatility is lower."

Richard Desmond: "we don't have views, we have exposures"

For much of the time, BAT makes straightforward transactions in the spot and forward markets, or using stop-loss strategies, with the target of achieving the average exchange rate for the year. However, Mr Desmond says the company is quite prepared to use sophisticated techniques, but on strict conditions. "We take a practical approach" he says. "We don't aggregate risks, we like to retain our flexibility. When we use a product, we make sure we understand the potential out-turn.

"Furthermore," he adds, "before we buy a product, such as a zero cost collar, we will run a programme to see not only what our strategy will achieve but also the cost of unwinding it half-way through."

When it comes to dealing with the exchange risk created by foreign currency assets, Mr Desmond says there are three possibilities.

The first is make it abundantly clear to shareholders that the group has foreign currency assets, which are not hedged, and let them assess the attractions of the shares on that basis.

This approach would mean that all the company's borrowings would be denominated in sterling, the currency in which the results are reported.

The second strategy is to match the debt exactly with the assets in currency terms so that when foreign exchange markets bob up and down, the value of the group's reserves stays the same.

Mr Desmond says BAT uses a third approach. "We are a little bit more sophisticated. We look at the currency ratio of the future cash flows as well as of the assets."

He explains that this means that "when currencies move our debt/equity ratio and interest cover ratio will tend to be stable."

Philip Coggan

Profile: BRIAN MARBER

Top of the chartists

Few activities conjure up a dull stereotype as readily as the chartist, whose dogged study of the past as a guide to the future can appear an intellectually arid exercise.

Few men, however, confound this stereotype more thoroughly than Brian Marber, doyen of the trade. Maverick and man of strong views, an hour or two in his company is enough to make anyone turn to charts.

Unfortunately, Mr Marber is not quite the marketing gift he first appears. Indeed, he has a somewhat ambiguous relationship with his calling. "I told the secretary of the Society of Technical Analysts that it was not in the interests of the society to promote itself. We would do ourselves more good if we go around pretending to be weirdos. The efficiency of technical analysis is in inverse proportion to its acceptance," he says.

Mr Marber did not receive his first fee-paying client until June 1979, when he successfully predicted that the dollar would drop against the D-Mark. Within two years Mr Marber had left his position at the stockbroking firm Simon and Coates – in his last six years on the stock exchange, he had been voted best technical analyst in the City – and Brian Marber and Co soon followed, being set up in September 1981.

Mr Marber will not discuss the size of his client base, but says it "was originally all corporates – people who were fed up with forecasts from the banks." Initially he called himself a forecaster. "They would not have known what a chart was 15 years ago, and if they had they would have laughed!"

Mr Marber may not enjoy marketing, but he knows a thing or two about advocacy. With the practised skill of one who has many times fought off the sceptics, he sets out his stall:

■ A 1989 Bank of England study shows that 90 per cent of all FX decisions made in the market had some degree of technical analysis in them;

■ 60 per cent thought technical analysis "at least as useful as fundamental analysis".

To those who argue that maybe fundamental analysis is more useful further out, over six to 12 months, Mr Marber replies pungently: "I can tell you that is absolute rubbish." He cites a biannual survey where analysts are asked for their forecasts one year out. Of the 24 surveys he has monitored, in only 10 of those has the mean forecast been correct on the trend.

The figures show, he argues, that fundamental analysts get the trend right about 40 per cent of the time. "Random chance would have it that you would be right 50 per cent of the time, wouldn't it?"

The same Bank study found that technical analysts were right no more than 50 per cent of the time. While Mr Marber concedes that charts will not help in a ranging market, he says "they will never leave you on the wrong side of a trend". Research shows that foreign exchange is the only market to trend, and it does so 58 per cent of the time. "That is sufficient to make money," he says.

Nothing gives Mr Marber more pleasure than laying into the "fundamentalists". Purchasing power parity? "A load of bullshit. The dollar was undervalued for 10 years in terms of PPP in the 70s. How the hell does that help you make a decision?" Interest rate differentials? "Lex wrote the most arrant nonsense recently: if interest rates go up, currencies go up."

He then pulls out a chart of dollar/D-Mark going back a number of years which shows that the currencies followed interest rate trends only – wait for it - 40 per cent of the time. To Mr Marber, none of this is surprising. "The function of markets is to try and discount the future. They concentrate on anticipating future interest rate differentials, not current ones."

Brian Marber: a maverick and a man of strong views *Trevor Humphries*

In fact, sceptics have long ceased to be a problem. The enemy is now within – the problem to be faced is how to deal with success. Fifteen years ago banks did not employ chartists and people wanting to see the dollar/D-Mark relationship plotted had to come to people like Mr Marber. Now it is the mere push of a button away. "Everybody thinks he's a bit of a chartist," he says.

The problem now is that interbank trading in foreign exchange dwarfs trade-related flows. But most interbank trading, Mr Marber argues, is guided to a greater or lesser degree by technical analysis. The danger is that it then becomes self-destructive as "there is no follow through, since no-one else is there".

He applies this logic to the range trading in foreign exchange markets since September 1992. Why? "Because there are too many technically-inspired decisions. Give me a market that isn't subject to technicians. It's much easier."

Longer-term calls have become much more difficult, says Mr Marber. In the case of cable (£/\$), the one-year average used to change direction every three years. "Nowadays, by the time you have called the change it has topped." Mr Marber puts this down to improved communications. "Arbitrage works on bad communication. Where are the fundamentals when people close positions at the end of the day?" he laments.

Philip Gawith

Profile: DAVID SHAW

Erring on the side of caution

Sterling's undignified exit from the European exchange rate mechanism (ERM) in September 1992 was the catalyst for Legal and General revising its approach to currency management, says David Shaw, head of strategy.

Sterling's 14-15 per cent decline "brought home to us just how exposed our assets, and by extension our policy holders, had been." He adds that "such events are becoming increasingly common and institutions like L&G need to assess the risks and take appropriate action".

Institutional investors are among the more cautious creatures found on foreign exchanges. So Mr Shaw is quick to stress that the discretion he is allowed by his board and trustees is tightly constrained. At the level of currency selection only two sizes of position are allowed: the minimum position is 2.5 per cent, and this has to be justified by an expected total return on the preferred currency of at least 7.5 per cent.

The maximum permitted position is 5 per cent of underlying assets, with an expected total return of 15 per cent. "No conviction, no bets," he says.

Five per cent may not sound much, but can add up to large numbers when one considers that L&G has more than £30bn assets under management, of which about 20 per cent is in non-sterling assets. Across the breadth of UK institutional investors, nearly £250bn is probably invested in non-sterling securities.

Mr Shaw stresses that these large bets are rare. In 1993 L&G did not take any 5 per cent positions, and only placed one 2.5 per cent position on the dollar, which paid off.

This year has proved tricky. Mr Shaw is in good company when he admits that L&G had a bet on the dollar against the yen which went wrong. The group was saved from embarrassment by placing a stop-loss order at Y107.50, which minimised the loss to 2 per cent.

While the 2.5 and 5 per cent limits are very rigid compared to many other currency trading operations, they still represent a considerable change in modus operandi from the situation just two years ago. "The asset allocation view was initially (taken) without any serious assessment of the relative attractiveness of the currencies involved," says Shaw.

Partly this reflected trustees' concern that managers not be seen to be too pro-active in their management of currencies. It was also a function of the relatively low currency volatility since October 1990 when sterling had formally entered the ERM.

Now the group does one-year currency forecasts, roughly consistent with its typical investment time horizon. The focus is on the four main currencies – dollar, D-Mark, yen and sterling – and each month L&G uses fundamental economic analysis to rank the currencies in terms of expected performance. With about 80 per cent of group assets in the UK, the key is the sterling cross with the other three currencies.

David Shaw: discretion allowed by his board is tightly constrained

The degree of discretion in managing currency exposure is an ongoing subject of internal debate. An important concern from a taxation perspective is to be classified as an investor, not a trader – a fine distinction which turns on investment time horizons.

Overall, says Mr Shaw, "there is an increasing willingness on the part of trustees to be more flexible in allowing currency management." There is, however, a job of persuasion to be done. Some trustees are financial ingénues, who need to be persuaded that currency management is not speculation, while others, for example, will feel that selling sterling is in some way unpatriotic.

With trustees more willing, the currency decision is now increasingly separated from the underlying asset decision, says Mr Shaw, "because the economic fundamentals that drive currencies are not the same set that drive the bond and equity markets". The decisions are taken "separately but simultaneously".

While progress has been made, Mr Shaw is careful to stress that they have not reached the stage where, like hedge funds, proprietary traders or currency funds, they purely take a view on a currency. "What we do is currency management, and it is the currency management of an underlying asset," he stresses.

A concern that Mr Shaw expresses is that just as investment managers are mastering currency management, the game seems to be changing. "We've padded up for the village cricket match to find we're playing in the World Series," he quips.

The worry is that the advent of highly leveraged trading, conducted mostly by proprietary traders and hedge funds, may have fundamentally changed that nature of markets in a way which renders the more cautious strategies of institutional investors both anachronistic and inadequate. This concern was heightened by the volatility of financial markets during the first quarter which left many fund managers with red faces.

It is early days yet. The first quarter may be a one-off, in which case it can be ignored. Otherwise, Mr Shaw may find himself having to manage his currency exposure as actively as he manages the underlying assets.

Philip Gawith

The snows of an economic winter are melting: Page 4

FINANCIAL TIMES SURVEY

BELGIUM

Thursday June 2 1994

Faster recovery than expected

Political and business leaders are trying to regain their confidence after riding out Belgium's worst recession for 60 years. Lionel Barber reports

Belgium is looking at a brighter future. After one of the most painful recessions since the 1930s, the Kingdom is advancing again much more rapidly than expected.

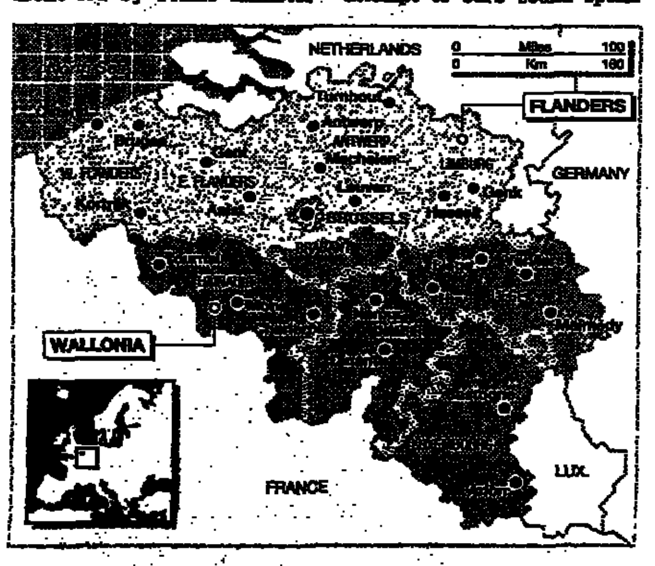
Economic recovery will bring relief for Belgium's beleaguered political and business classes whose goal over the past 12 months can be summed up in one word: survival.

Like all members of the European Union, Belgium has been buffeted by rising unemployment, intermittent labour unrest and popular disillusionment with politicians, few of whom can aspire to the stature of the immediate post-World War II generation led by Paul-Henri Spaak.

The economic crisis peaked last summer when a wave of speculation threatened to force the fragile coalition government led by Prime Minister Jean-Luc Dehaene to abandon its policy of shadowing the D-Mark, a move which would have put Belgium's long-standing anti-inflation strategy at risk.

Although siren calls were heard in favour of a UK-style dash for growth through lower interest rates and a devaluation of the currency, the Dehaene government and the Belgian National Bank stood firm. Together they refused to break ranks on interest rates with their partners in France, Germany, the Netherlands and Luxembourg – the informal hard currency club which continues to enjoy the best prospects of forming a European monetary union later in the decade.

Mr Dehaene plunged ahead instead with a "global pact" between government and employers, the most ambitious attempt to curb social spending since the second world war. True, he failed in the end to win the support of the trades unions; but the lengthy political bargaining which accompanied the plan bought time for the government in the winter, as well as offering the prospect of significant budgetary savings in the medium-term.

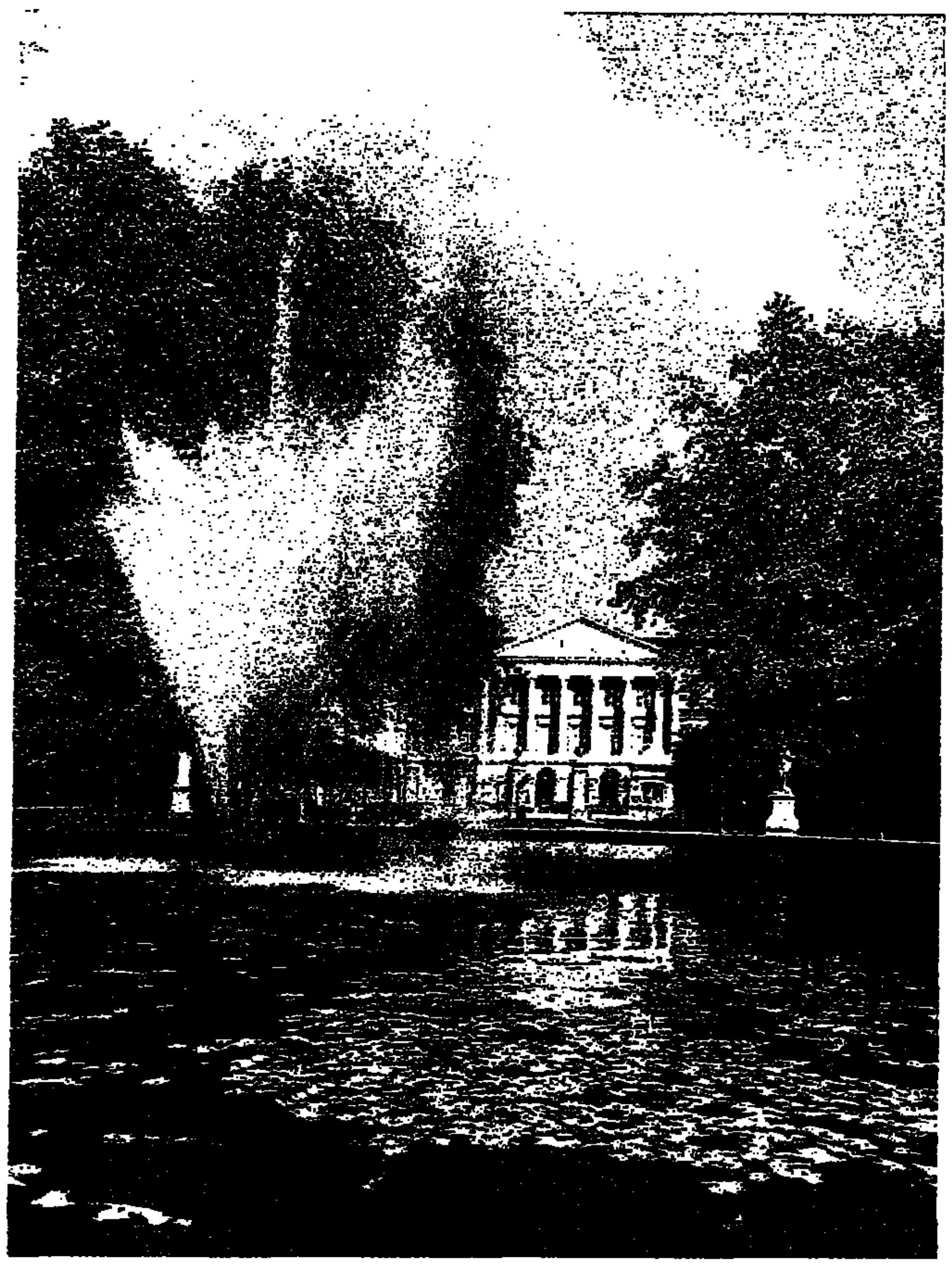


Mr Dehaene, who looks like a slimmed-down version of Chancellor Helmut Kohl of Germany, has seen his reputation enhanced as a result of the global pact and his chairmanship of the widely acclaimed Belgian presidency of the European Union which ended last December.

Somewhat to the surprise of the Belgian public, he has been encouraged by France and Germany to put himself forward as a candidate to succeed Mr Jacques Delors as president of the European Commission at the end of the year.

Sitting in his prime ministerial suite in Brussels, Mr Dehaene declines politely to talk about his ambitions to move up the road to the Commission. His biggest indiscretion is a loud roar of laughter in response to suggested Cabinet permutations which would allow him to leave his post. Yet he clearly relishes his reputation as the "fixer" or the "plumber" in Belgium, and would not be averse to trying out his skills on a bigger stage.

"Many people thought that, because we were a government with socialists, it [the pact] was not possible. We proved that it was possible," he says. "After a period of uncertainty between August and November [1993], we re-established international confidence in the Belgian economy, in the Belgian currency, and in the Belgian flag."



Brighter outlook: Palais de la Nation, Brussels, seat of the Senate and Chamber of Deputies (Picture: Universal)

The government's resilient response to the summer currency crisis underlines a consensus at the heart of Belgium's complex domestic politics, in which linguistic and cultural tensions between the French, Flemish and the tiny German minority are contained in a loose federal framework. This consensus rests on an assumption that Belgium's needs are best served by deeper co-operation and integration in Europe.

Though Mr Dehaene says pointedly that the ordinary Belgian's enthusiasm for Europe is not what it was, he still portrays his country as a test-case for tackling the problems of the European Union itself: slow growth, high non-wage costs, high public debt and popular disenchantment with political elites (reinforced in Belgium by a corruption scandal in Wallonia which has already claimed the scalps of three leading members of the local socialist party).

Belgium's global pact drew inspiration from Mr Delors' White Paper on employment, growth and competitiveness which was endorsed by the 12 heads of EU government at the Brussels summit last December. The government's measures to encourage companies to recruit young people under 25 without paying full employment costs anticipated the White Book's own recommendations; so too, the global pact's goal of holding down the real wage growth to less than the rate of inflation for the next three years.

The ultimate prize for Belgium is European monetary union. The government and the central bank are at one in striving towards this goal, believing that in the long term a single European market without a single currency is not workable. Yet it is also clear that the government's huge public debt – built up during the spend-thrift 1970s – makes it difficult for the country to meet the Maastricht treaty's criteria for EMU membership.

Mr Dehaene is convinced that Europe's political leaders will exploit the treaty language in the most flexible way possible to allow EMU to proceed. Yet doubts remain about where to draw the line. If Belgium were welcomed into the monetary union, protests from Spain and Italy seeking reciprocal treatment would surely follow.

Peer pressure inside the EU has helped to steady Belgium's economic performance, but Union membership has also served as an anchor for the Belgians themselves. Without the Union, Belgians would be much more vulnerable to tensions between Wallonia in the South and Flanders in the North, where the Flemish population is becoming increasingly assertive in pressing for greater political and economic autonomy.

Belgium's drive toward greater devolution of power to the regions started almost 25 years ago, and it has been gathering pace ever since. The most important shift took place as a result of the Saint Michael agreements last summer which transferred powers over foreign trade, agriculture, and trade export promotion to the regions.

The St Michael accords leave the national government with foreign and defence policy, internal security, the budget and social security. Critics argue that the national government has become nothing more than a glorified co-ordinating committee; and there seems little doubt that Mr Luc van den Brande, the garrulous Flemish minister president, sees the agreements as the prelude to full autonomy.

Already, there are concerns in official circles about the ability of the national government to rein back regional spending. Mr van den Brande has also questioned why rich Flanders should contribute such a high proportion of the national social security budget to compensate for poorer Wallonia. Whether these tactics stir up or steal the thunder of the right-wing Flemish national movement remains unclear; clues may emerge from this month's European parliamentary elections.

Mr Dehaene regrets the controversy over social security, a matter which he considers

● Continued on next page

IN THIS SURVEY

Pluralist Belgium has loosened its unitary ties in favour of federalism. **Emma Tucker** asks if it will work

Flemings, Walloons, Germans

Just over a year ago a complex and protracted process reached its conclusion in Belgium. The small country, with a population of barely 10m, completed its change from a highly centralised, unitary state into a federation of regions and language communities.

The country's divisions have many permutations. There are two main cultural communities – the Flemish and the French, plus a smaller German community. These occupy three distinct regions – Flanders, Wallonia and Brussels.

The risk with federalism is one of duplication and hence inefficiency. As a Walloon government official put it: "There is a danger that we have complicated the set-up so much, that it has become ineffective."

But one year on, the verdict on fully-fledged federalism is so far, so good. Rather than complicating the process of government, the new system has made it simpler.

"Thirty to forty years of Belgium as a unitary state did not work," says Xavier Mabille, a Belgian political analyst. "There is less risk of doubling now than before."

The process towards federalism began way back in 1970 when the existence of two main cultural communities and three regions was recognised under the constitution. In 1980 the communities were given, in addition to cultural responsibilities such as language-use and the arts, responsibility for areas that could be dealt with at the "personal" level. This covered policies for the elderly and the handicapped, for example. Meanwhile, regional institutions were given responsibility for areas such as the environment, rural development and the economy.

In 1988, powers for both the communities and the regions were enlarged to include education, public works, transport, science policy and oversight of the communes and provinces within the regions. The communities and regions were also given responsibility for their own finances.

Last year, the transition was completed. Under an agreement known as the St Michael accords, Flanders, Wallonia and Brussels were granted their own, directly elected parliaments. The parliamentary bodies of the communities were also to be elected directly. Significantly, powers over foreign trade, agriculture, scientific policy and some aspects of international relations were transferred to the regions and the language communities.

Since last year many of the fears of those who distrusted federalism have been allayed.

"I would have preferred not to live in a Federal State, but in a regional one," says Mr Charles Picqué, president of the Brussels region. "But we have to live with it, and organise our structures around it."

Of all the administrators facing last year's dramatic changes, those in the Brussels region probably had most to fear. As a bilingual region – part of it is Dutch speaking, while most in the capital speak French – the stresses were likely to show up more here than elsewhere.

"With two communities, there is a temptation for separatism," says Mr Picqué. But for all his doubts, and even during a long recession, such forces have remained at bay.

More troubling in the short term, are the economic implications of federalism, if Belgium the federal state – a keen and dedicated member of the European Union – is to meet the convergence criteria for monetary union set out in the Maastricht treaty.

One fear of Mr Peter Praet, senior economist at Kredietbank, Belgium's leading bank, is that the new arrangements will make it very difficult for Belgium to meet Maastricht's stringent demands, particularly on control of the budget.

The real test will come in 1996, by which time Belgium, in order to take part in a single currency, will have to have reduced its notoriously runaway government deficit to just 3 per cent of GDP.

The new federalism also throws up potential problems for foreign policy. Since last year, Belgium's three regions have had the right to sign treaties with other nations. Indeed, Flanders – the most chauvinistic of the three regions – has already signed a treaty on water with the Netherlands. Inevitably, such a devolution diminishes the standing of the Federal government.

Attitudes towards these new powers vary from region to region. Mr Luc van den Brande, president of the government of Flanders, is an enthusiast. The right to sign treaties will, he says, "do much to stimulate and facilitate relations between Flanders and its European and international partners". In line with this, Flanders has set up a network of 70 economic representatives over five continents. It also has its own diplomats in Vienna, The Hague, Washington, Tokyo and Brussels.

His approach contrasts sharply with that of Mr Picqué.

"It may be possible for us to sign treaties with other nations, but it is unlikely that the UK or France would bother to sign treaties with a region," he says. As far as Brussels is concerned, it will continue to operate through the Federal government's embassies.

Another problem is that of transfers of resources. With regions free to collect certain taxes, there is a danger of a two-tier system developing in and around Brussels. Those who are wealthy enough to commute are gradually moving out of the Brussels region, to set up home just over the border in Flanders where taxes are lower. As a result, the tax base in Brussels is gradually shrinking, leaving the regional government short of funds and creating resentment that it has to pay for the city's infrastructure used daily by high numbers of "free-riders".

Many of these areas could in the future create resentments and tensions. Further, the ambitions of the regions differ widely. With Wallonia and Brussels more or less content with the current set-up, Mr van den Brande has publicly stated his desire for a totally independent Flanders.

Three things however, should act as a brake on the separatist forces. Firstly the monarchy, very much a symbol of Belgium's unity. Secondly, the city of Brussels and the problem of how, if total independence should be granted to the regions, the city would be split. Thirdly, there is the Belgian people's common history and a high level of intermarriage. These aspects, together with the lack of any religious tension, should ensure that at least for the time being, the loose federation will continue to thrive.

Jean-Luc Dehaene: prime minister of a polyglot country

King Baudouin is dead: the royal family remains a focus for national unity

KEY FACTS

Area	30,514 sq km
Population	10.1 million (mid-1993 estimate)
Head of state	King Albert II
Currency	Belgian Franc (BFr)
Average exchange rate	1993 $1=BFr34.60; 20/5/94 $1=BFr33.86

ECONOMY	1993	Latest*
Total GDP ($bn)	206.0	n.a.
Real GDP growth (%)	-1.3	0.8
GDP per capita ($)	20,396	n.a.
Components of GDP (%)		
Private consumption	63.9	
Total investment	18.1	
Government consumption	15.4	n.a.
Exports	66.5	
Imports	-63.0	
Retail prices (% change pa)	2.8	2.8
Ind. production (% change pa)	-5.5	1.0
Unemployment (% of lab force)	9.1	9.8
Reserves minus gold ($bn)	11.4	13.0
10 year bond yield (% pa,avg)	7.22	7.40
FT-A index (% change on year)	+32.7	+1.7
Current account balance** ($bn)	10.0	10.3
Exports** ($bn)	120.0	n.a.
Imports** ($bn)	118.0	n.a.
Trade balance** ($bn)	2.0	n.a.
Trade partners** (% by value)	Exports	Imports
Germany	22.8	23.9
France	19.3	16.5
Netherlands	13.7	17.5
UK	7.8	7.7
Italy	5.9	4.5
US	3.9	4.4
Japan	1.0	2.2
EC	74.9	73.5

* = 1994 figures (EIU forecasts for 1994 except reserves (March), bond yield (20/5/94) and FT-A index (% change from 31/12/93 to 20/5/94)

**=Trade figures (1992) refer to Belgium & Luxembourg Economic Union (BLEU)

Source: IMF, Datastream, Economist Intelligence Unit

■ **Interview:** Luc van den Brande, Flanders' regional leader

'This is only the beginning'

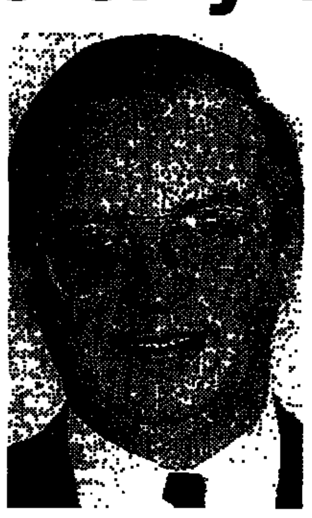
Next month, when football fever grips the world, Mr Luc van den Brande, minister-president of the Flemish government, will be supporting the Belgian team, the Red Devils, writes EMMA TUCKER.

As yet, no Flanders team exists for him to support. Like the Belgian monarchy, the Red Devils remain one of a handful of institutions that inspire people like Mr van den Brande to call themselves Belgian, even if it is just for the duration of a football match.

The rest of the time, Mr van den Brande is without question Flemish. Minister-president of the region since 1992, he has steered Flanders through its first year of full federalism.

For the 49 year old politician this is only the beginning. Although wary of what he says – he has been rebuked by the King for thinly-veiled calls for Flemish independence – Mr van den Brande is keen to see yet more powers devolved to the regions. "Is this the end?" he asks of last year's St Michael agreements, which completed Belgium's long transition from a unitary state to a loose federation. "I don't think so. It is possible that new competences, such as social security, will be transferred to the regions, but linked to the new framework."

"The debate in my view does not revolve around whether or not the Belgian level of government is disappearing, but around the way in which the Flemish and French-speaking communities may best live together in a modern federal state," he says. "I believe that the Flemish and French-speaking communities must in future work out, on a basis of equality, what it is they wish to undertake jointly and are able to do better jointly."



Luc van den Brande: in search of a new regional balance

He maintains that the conditions for federalism, together with consensus where required at a national level, are now in place. For a start, the St Michael accords have lowered the tension of Belgian politics.

For example, Mr van den Brande says that two years ago a Belgian from Flanders would not have wanted to turn up for the annual festivities in Namur, capital of French speaking Wallonia. "Since St Michael the pressure has become less," he says. "It was necessary to have this reform. It was the best way of managing the controversies between the two major parts of the country."

Meanwhile, Flanders is making the most of its newly acquired responsibilities, enthusiastically pursuing its own foreign policy on the one hand, while remaining "intense and loyal" to the Belgian diplomatic service on the other. It has been particularly active on trade, using the Flemish Foreign Trade Board as a defender and promoter of Flemish exports.

On the economics front, Mr van den Brande would like to see the levying of social security transferred to the regions, not least because in order to attract foreign investment to Flanders, he would like the authority to lower employers' costs. "It is not normal for us to have our own regional industrial policy, but to not have any say over social security," he says.

Although he will not put a date on it – preferring instead to talk about Belgium's natural evolution – the Flemish minister president's ultimate aim is to see an even more decentralised Belgium, in which the federal government does little more than act as an "accepted go between" for the regions.

Such a vision, he maintains, is not out of line with the process of European integration, as it conforms to the notion of subsidiarity – devolving decision-making down to the most appropriate level.

His ambitions for Flanders tie in nicely to such a structure. And by the time Europe gets round to it, Flanders may even be sending its own football team to the World Cup championship.

Emma Tucker on industry's bid to contain costs

The fight goes on

Like most other countries in the European Union, Belgium is only just emerging from a long and hard recession. With the fragile recovery has come a revival of hope in the country's manufacturing sector. But the problems for heavy industry are far from over.

The sector remains a robust and important part of the Belgian economy. Manufacturing accounts for roughly a quarter of gross domestic product, and employs about 28 per cent of the labour force. But exceptionally high social security costs have made industrial employers fear that Belgian enterprise is pricing itself out of the market.

"We are the only country in the world where we still have automatic and general indexation of salaries, even during a recession," says Georges Jacobs, president of UCB, the chemical and pharmaceutical group, and head of the Federation of Belgian Enterprise. "We have the most generous social security system in the world."

The problem has become something of a fixation with Belgian industrialists. According to another prominent company president, workers in Antwerp are 20 times more expensive than workers doing the same thing just over the border in Rotterdam, Holland.

Prompted by the pain of recession, the government last year took action to lower employers' costs. This included a BFr75bn cut in social security expenditure and a pay increase limit of 2 per cent for the next three years, effectively a freeze on wages once inflation was taken into account. But the Federation for Belgian Enterprise argues that the measures were inadequate.

"The government has done something, but it has not gone far enough," says Mr Jacobs, head of the FEB. "They are not doing enough to encourage Belgian enterprise."

If ever there was a time for the government to assist the overburdened manufacturing sector, last year's company results show that today is the ideal time. According to figures from the FEB most industrial sectors experienced their first rise in production in December last year, for the first time since the end of 1992. But for the whole of 1993, figures were negative virtually across the board. A sectoral breakdown shows:

- METAL, ELECTRICAL: deliveries dropped by 3.4 per cent in 1993, although excluding cars, the drop was a more worrying 7 per cent. The financial health of the sector is meanwhile threatened by the high number of restructurings undertaken last year and a rise in bankruptcies. Orders from other countries, however, picked up towards the end of last year and should help the sector stabilise in this.
- STEEL: action by the European Union to stabilise steel prices should help the Belgian steel sector recover from the recession, although high social security costs continue to diminish the competitiveness of this sector against other EU producers.
- CHEMICALS: This year is likely to be better than the last, following a stabilisation of production in the fourth quarter of 1993. Prices have stopped falling and in certain sectors prices have begun a timid rise.
- TEXTILES: production dropped by 7.6 per cent in the first half of the year and by 5 per cent in the second. However, exports of carpets – in which Belgium leads the world – rose a spectacular 58.9 per cent measured by volume in 1993, principally thanks to exports of cheap carpets to Eastern Europe.

According to the companies themselves, the worst is over. Solvay, the chemicals company, and Belgium's second biggest enterprise, suffered particularly badly from the world recession. Cheap imports of soda ash from Eastern Europe and the US also prompted the need to restructure.

As a result, 11 consecutive years of profit came to an end in 1993 with a spectacular annual loss of BFr6.9bn. Almost Bfr3bn of the loss was caused by restructuring costs after the closure of several plants last year including two soda ash plants, one in Belgium and one in Germany, and a PVC plant in Austria.

Now, however, the company is hoping for a better year. It expects a very slow recovery this year, and faster growth next year. The pick-up will be assisted by the start of production of hydrogen peroxide at a new plant in eastern Germany.

Prospects are also rosier at Petrofina, Belgium's largest industrial group. Like Solvay, the company was hit by the global recession,although it managed to stay in profit last year.

The group has refocused on core activities, abandoning those where the company was not competitive, such as coal, shipping, insurance, and property. It now expects a 5 per cent gain in productivity this year through investment and the gradual shedding of 2,000 jobs since 1991. A BFr26bn upgrading of its Antwerp refinery should be complete by September, and the company expects oil and gas output to go up 15 per cent this year.

At UCB, Mr Jacobs is sanguine about prospects for his enterprise. He describes the company, which concentrates on a fairly narrow range of pharmaceuticals, films and packaging, as "the small, clever guy". Following a 17 per cent drop in profits last year, he now predicts that profits will be "at a good level" this year.

So overall, Belgium's manufacturing sector can probably expect a reprieve this year from the doldrums of 1993, even if growth remains unimpressive. Mr Gert Lambrecht, a senior economist at Kredietbank, one of Belgium's biggest banks, says activity will be weak, but it won't fall further.

"It is also likely that wage costs will remain under control," he says, adding that lower short term interest rates and a bounce back from two years of falling capital investment will boost growth in the manufacturing sector. Furthermore, the far reaching restructuring undertaken by many of Belgium's big industrial companies such as Solvay should start to pay off this year and next, restoring prosperity to the sector.

Recovery gathers speed

● Contd from previous page

should be non-partisan. He plays down the threat of an eventual split in the country between north and south.

In his view, the Belgian approach to regional and ethnic tensions compares favourably with the failure to hold former Czechoslovakia together, let alone contain the separatist violence in Spain and Northern Ireland. "This has never been, in the view of the population, a revolution." Yet devolution and regionalisation still represent something of a conjuring act. There is something of a "Now you see it, now you don't" quality about modern Belgium, particularly when the visitor travels outside Brussels into the Flemish heartland. It is only when something dramatic happens – such as the death last year of King Baudouin, a monarch truly loved by his people – that the national spirit comes alive.

To a lesser degree, Mr Dehaene, though far from popular, has also emerged as a figure around which the diffuse ethnic and political coalitions in Belgium can rally. He has done so for more than 15 years, first behind the scenes as a power broker and chef de cabinet for prime minister Wilfried Martens and latterly as prime minister himself from 1991 when no one else could win sufficient support for the job.

If Mr Dehaene were to move to the European Commission, it could remove a critical hub in Belgian politics. Leaving aside the rival claim of Mr Lubbers, Dutch prime minister, this is his biggest obstacle to succeeding Mr Delors.

Lionel Barber surveys the aftermath of the upheaval in the government bonds market

Intact after the earthquake

Most revolutions pass Belgium by. Yet even the most conservative practitioners in the Kingdom's financial markets have understood the wisdom of Edmund Burke's dictum that it is necessary to reform in order to preserve.

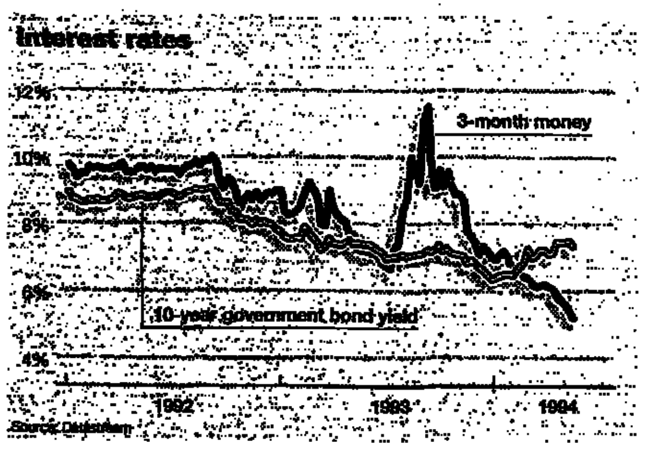
The changes underway in Belgium cannot claim to match the Anglo-Saxon "Big Bang" which shook New York in the 1970s or the City of London in the 1980s. Yet they are significant in Belgian terms.

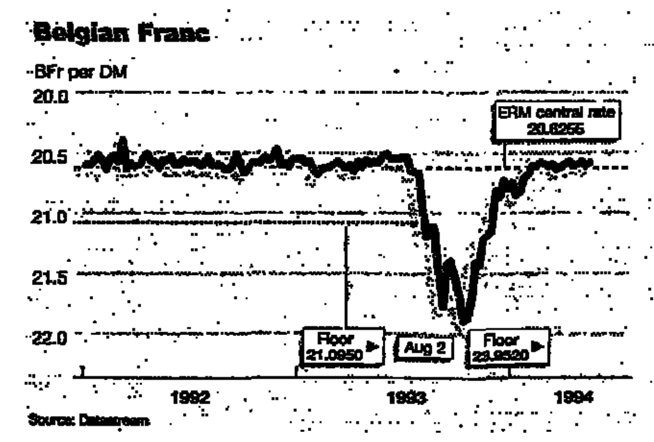
Over the past five years, the country has witnessed a restructuring of the government bond market; the introduction of an active market in short-term Treasury bills; and the creation of a Belgian Futures and Options Exchange (Belfox) – all of which have increased the liquidity of the domestic bond market dramatically.

"It shows you can have an earthquake without the demolition," says Mr Peter Praet, chief economist of Générale de Banque.

Little Bang began in 1989 when Mr Philippe Maystadt, the Belgian finance minister, decided to restructure the government bond market in a fashion similar to changes already underway in neighbouring France.

The reforms meant scrapping the traditional means of financing public debt through a favoured consortium of banks, along with interest rates set by the National Bank of Belgium.





The old system was cosy, profitable and uncompetitive. A secondary market barely existed; and the intricate tax processing of "classic" government bonds kept foreign investors away. And the banks themselves were lagging behind their European counterparts in innovation.

Mr Maystadt, who has since become one of the most respected finance ministers in the European Union, calculated that he could get a better price for government debt by opening up the market. He was right: the new, highly liquid 20-year, 10-year, and short-term linear bonds (OLOs) have saved the Belgian government billions of francs, according to Mr Praet. With an outstanding net debt of BFr9,000bn, Belgium's public debt ratio to GDP is hovering around 125 per cent – higher than Italy's. Last year alone, the debt increased by BFr784bn, double the actual budget deficit.

This makes the government bond market one of the most important in Europe. But it also explains why Mr Maystadt, a fervent advocate of European monetary union, is looking to save every sou so as to meet the demanding Maastricht criteria required to join EMU.

In 1993, the state raised BFr1.530bn, while finding investors for converting BFr601bn in long-term OLOs. Mr Jean-Paul Parmentier, head of fixed income bonds at Kredietbank in Brussels, argues that the more flexible management of debt helped tide the government over a sticky summer when the franc came under speculative attack.

Ms Jane Edwards, economist with Lehman Brothers in London, agrees. In her opinion, the National Bank's success in narrowing to within a hair's breadth the spread in short-term interest rates with Germany, while maintaining the currency link with the Deutsche Mark, has been "remarkable".

Similarly, the spread in 10-year bonds has narrowed from around 100 basis points at the start of the year to between 80 and 85 basis points, while other countries such as France have watched spreads widen.

Some bond market observers believe that the Dehaene government would like to exploit this new-found flexibility, perhaps by mining the short-end of the market, where interest rates are lower. The reason is that, with only two budgets remaining until the European Commission's 1996 review of EU member states' economic (and debt) performance, the government wants to produce the best debt figures possible ahead of a political judgment on EMU.

Such a move could, however, strain the official policy of consolidating the debt into long-term, stable debt. It also assumes that the recent rise in long-term interest rates in Europe is temporary only. (Any further upward trend would, of course, cost the government money). Mr Maystadt insists that judgments on refinancing debt are taken according to commercial logic, and there is no special effort to move into two- or three-year covenants.

In the minister's view, the second phase in Belgium's reform programme should be to promote the diversification of products and stimulate greater competition among operators. There is plenty of scope.

A recent Générale de Banque study argued that Belgian investors interested in bonds still have a restricted choice in their home country, and could be wooed more effectively.

The study estimated that Belgians bought an estimated BFr350bn to BFr400bn in foreign bonds, around one third of which was in Luxembourg francs (an indication of how much of Belgian savings is sloshing around in neighbouring Luxembourg, where there is no withholding tax).

Small investors have been attracted by treasury certificates, but Générale de Banque still estimates that financial and credit institutions are the largest investor group with an 83 per cent share.

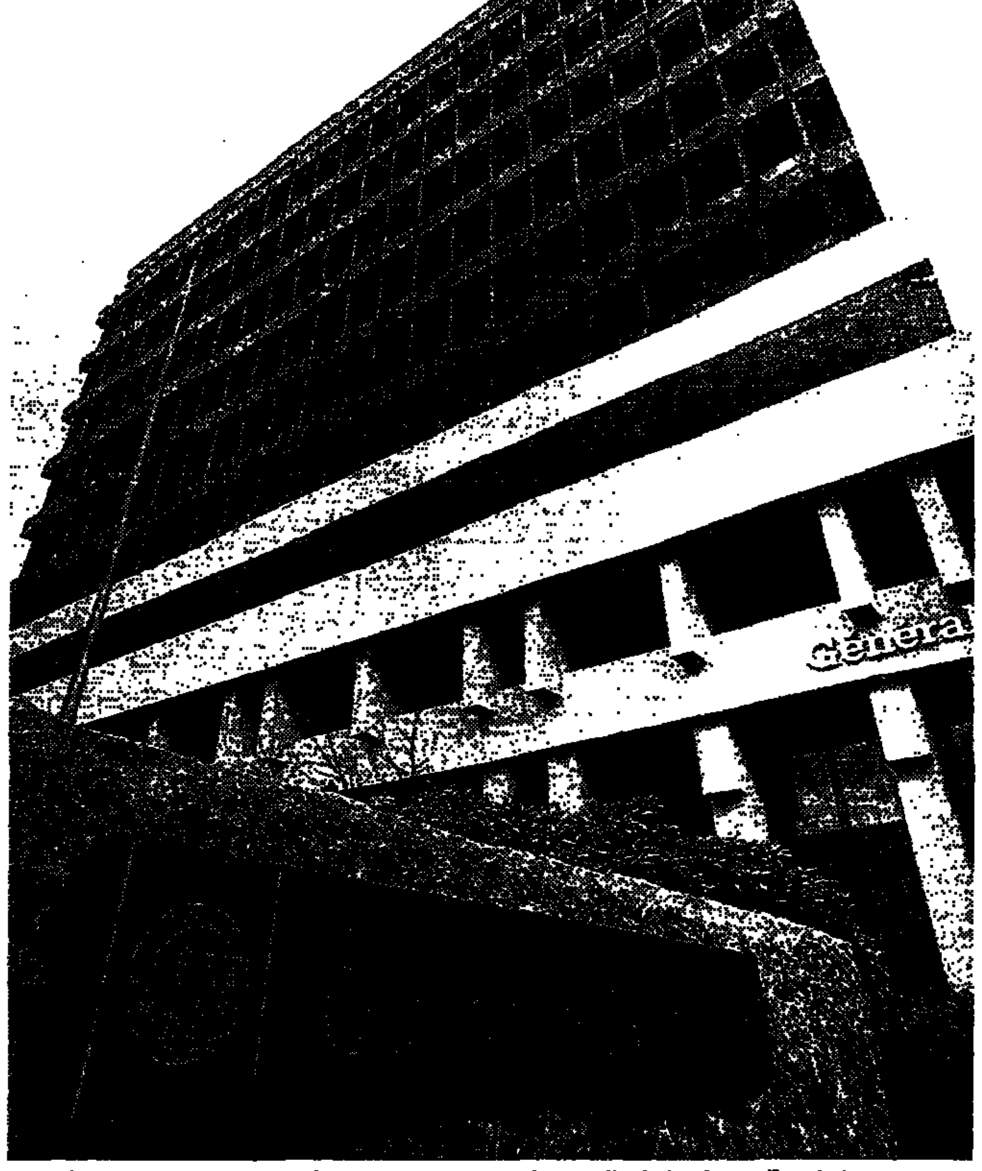
What else is to be done? Belfox could certainly borrow some of the liquidity which the OLOs enjoy. Its average daily volume is increasing; but a range of between 2,000 to 3,000 contracts a day shows that it is much less liquid than in Germany.

Second, the private bond market could be nourished. The market is small, and Belgian companies still seem wary of issuing securitised debt in Belgium, mainly on cost grounds.

Third, there is more scope for innovation in the market for longer term index contracts, for example for one to two years.

But Mr Maystadt argues, correctly, that Little Bang has forced the banks to come up with new derivative products. Recent changes in the law should open the door to the kind of "securitisation" of bank loans and mortgages which is routine in the US.

In short, those in Belgium who thought that Little Bang would be a zero sum game – with either the government or the banks losing out to competition – have been proved wrong. Belgium's quiet financial revolution, as far as it goes, has paid off for both sides.



Générale de Bank in Brussels says investors could be wooed more effectively Picture: Tony Andrews

Fashion houses win a growing reputation, writes **Victoria Greenwood**

Flair, boldness and originality

Belgium is best known for beer, frites, chocolate – and fashion. Next to the old Belgian brand-names of Stella Artois and Côte d'Or, a host of new names is making its mark in the international fashion world.

Dries Van Noten, Anne Demeulemeester, Dirk Van Saene and Walter Van Beirendonck may not be as big as Chanel and Yves St Laurent, or as famous as Armani and Lagerfeld; but their labels are much sought after among the cognoscenti and word is spreading fast.

The new Belgian designers can be spotted today in stores ranging from Bergdorf Goodman in New York and Nieman Marcus in Los Angeles to Whistles and Joseph in London, Joyce in Hong Kong, and to outlets in an increasingly fashion-conscious Tokyo. Back at home, Queen Fabiola has become an ambassador for the Belgian fashion industry, sporting Watelet dresses, Strelli coats, Marie Storms jewellery and, always, the Delvaux handbag.

The rise of contemporary Belgian fashion began in the early 1980s in Antwerp, at the Académie Royale, the town's now famous art school. It was driven by a small group of talented, avant garde and ambitious students who became known as the Antwerp Six.

The Belgian government helped to promote these designers not through direct financial aid but through a competition known as the Golden Spindle. Originally set up to give a shot-in-the-arm to the ailing textile industry, the award acted as a magnet for designer talent, helping young cash-strapped artists to forge an image. Still, these were hard times. Dirk Van Saene recalls how they all shared the same van for a fashion show in London.

Today, the collective approach is out. Each designer wants to be treated as an individual with a distinct label. Martin Margiela is typical of the contemporary Belgian style, with his unfinished edges, asymetrical hemlines and recycled material. This deconstructionist mode marks a clear break from the glitz and glamour of the 1980s and reflects a more restrained style for the politically chic, environmentally correct 1990s.

Dirk Van Saene, who has had his ups and downs in the volatile fashion business, believes the market is developing in two directions. In one corner stand the large multi-label department stores who can be expected to dominate the market in terms of volume; but there will always be plenty of room and profits for the specialist stores with the small exclusive labels.

> Modern Belgian fashion was launched in the early 1980s in Antwerp's Académie Royale, driven by a group of talented and ambitious avant garde students who became known as the Antwerp Six

The public is always looking for something exclusive and will always be willing to pay for it, he says. That does not mean that customers want to wrap themselves in the excesses of the catwalk; rather they are looking for something simple, serene and understated.

Van Saene's latest collection is simple and elegant, reminiscent of the early 1960s and Jackie Onassis. It is hand-finished in luxurious materials – and expensive. With only 16 clients, he estimates that he generated a turnover of around BF 6m. He relies on ateliers in the Ghent, Brussels and Antwerp region, all paid on a piece-work basis; but his textiles come from Ireland, Scotland, Italy and France.

Walter Van Beirendonck found it impossible to produce his line in Belgium, preferring instead the more sophisticated technical skills of northern Italy. Seated in the Académie Royale overseeing a student show earlier this month, Van Beirendonck cut an imposing figure with his shaven head, beard and fingers armour-plated in silver. His approach to the market is two-pronged.

First, there is a commercial line called W. & L. T. – code for Wild and Lethal Trash. His publicity states flatly: "WALT is colour. WALT is style." Translated, this means affordable, available and adaptable – the Walt fashion philosophy. In practice, it means fun clothes for the street: T-shirts for BFr 1,500 ($45); sweaters for BFr 5,000. All are produced and distributed by Mustang Italia, part of the German Mustang Group.

Second, Van Beirendonck has for the past three years run a separate collection of knitwear which draws its inspiration from Naive Art. The style is bright and humorous. Dresses and sweaters range from BFr 15,000 to BFr 35,000. Sold world-wide, he claims these high priced items are in enough demand to be recession-proof.

Traditional Belgian industry has not been slow to spot the demand for avant garde Belgian products. In 1985, Monarca, an old Belgian family shoe company, adopted Dirk Bikkemberg who had just won the Golden Spindle competition.

Today, Monarca produces around 15,000 pairs of Bikkemberg shoes annually from its factory in Lier, just outside Antwerp. The shoes are made of Belgian and Italian leather, for distribution in markets ranging from Switzerland to the US. Bikkemberg says its complete line of shoes, knitwear, clothing and accessories generated BFr 25m-30m last year.

Such talk of facts and figures are anathema to Gerald Watelet, the self-styled "imposter" on the Belgium fashion scene. This youthful, audacious 30-year-old from southern Belgium knows little of art schools, or the deconstructionist mode; but he has made his name on sheer talent – and an unusual partnership with a Flemish architect called Norbert Norman.

Watelet was brought up in Namur, Wallonia. In line with his parents' wishes, he steered clear of the fashion world and trained in the hotel business. At 21, he became the youngest maître d'hôtel in Belgium. But before long he switched direction, to indulge his lifelong passion for elegance.

He and Norman opened a haute coûture salon in Brussels. Today, located in the prestigious Avenue Louise, they sell 80 per cent of their products to Belgians. Their clientèle are predominately working women aged 40 to 65 seeking a simple, timeless mode. For Watelet, coûture is not just a fashion show; it is about cut, and what people can wear in practice.

Watelet and his team exemplify French fantasy and Flemish business acumen in action and stress timely deliveries, superior quality and high visibility. It looks like a winning combination – and it explains why Belgian fashion is here to stay.

Trade union militancy loses some of its edge, writes **Gillian Tett**

Retreat from the brink

On paper the proposal looked startling. The workforce was to face a 20 per cent cut in pay. Half of the employees would be Chinese. And as further provocation the would-be purchasers were demanding partial exemption from employers' social security contributions.

But when a group of Chinese bidders made precisely these demands earlier this year, as part of their bid for the bankrupt New Tubermase steel mill in Liège, Flanders, the local union's response was even more surprising. In place of public protests, the local branch of the FGTB, Belgium's main socialist union, quietly started negotiations with the Chinese bidders.

"We can't accept a 20 per cent pay cut. But between 0 per cent and 20 per cent there is a lot of room for negotiation," explained Mr Jean Potier of the FGTB, who explained that the union was simply being "pragmatic", given that the plant's 700 former workers had already been laid off five months ago.

In the event, the Chinese offer fell through. But the episode highlights a shift in Belgium's labour relations where, after decades of wielding formidable political power, the unions are increasingly on the defensive. On paper at least, their numbers remain impressive, with union membership rates of some 70 per cent. Although the proportion of active workers who are unionised is rather lower – the 70 per cent figure includes members who are currently unemployed and on early retirement – this nevertheless leaves Belgium one of the most unionised countries in Europe, second only to Scandinavia.

Belgium is one of Europe's most unionised countries, but the erosion of heavy industry is weakening the unions' base and bargaining power

But the ongoing erosion of Belgium's heavy industries is leading to an erosion of the unions' power base and bargaining power. Almost two thirds of Belgian employees now work in the service sector, with almost 13 per cent of the total workforce part-time. Unemployment stands slightly above 13 per cent, after almost touching 14 per cent last year.

Meanwhile, the Belgian Christian Democrat government of Jean-Luc Dehaene has started to wage a new war of fiscal austerity. This is designed to curb not only the country's huge public debt but also its high labour costs, currently calculated to be almost three times higher than average labour costs in France, Germany, UK, Italy and Netherlands.

The unions, split three ways between Christian Democrat, liberal and socialist groups, are not taking the shift quietly. Last November, the unions called the country's first general strike for 58 years in protest against the new austerity package, which proposed a BFr75bn cut in Belgium's social security expenditure – including a reduction in employers' social security contributions – and a pay increase limit of 2 per cent for the next three years. Allowing for inflation this 2 per cent limit amounted to a virtual wage freeze.

The one day strike effectively paralysed the country, prompting an angry response from employers, who are now demanding tougher government controls to prevent a repetition of the rough picket tactics used last year. Mr Jan van Holm, director of labour relations at Federation of Belgium Enterprises, the main employers group, said: "At first we [in the FBE] were astonished and then very upset about these new tactics, which seemed to breach the usual range of human freedoms."

But after a few brief flashes of violence, the protest subsided and the government pushed through most of the controversial points of its austerity package – including the 2 per cent freeze on wages increases for the next three years. According to Mr Peter Praet, chief economist at Générale de Banque, that the main outcome of the strikes may have been to illustrate the union's dwindling influence.

"The strikes were more of a symbolic nature. The general feeling we have is that they proved that the unions were not very combative," he says, adding that the most powerful pressure against the 2 per cent wage increase ceiling may finally come not from the unions but employers themselves. If the Belgium economy picks up later this year, as predicted, companies may start to demand that the ceiling is dropped to allow them to attract the best labour, he suggests.

The unions themselves strongly disagree. "Talk of the union's decline is exaggerated. The strikes showed we could mobilise the workers – and could force the government to negotiate," insists Mr Roland DeWulf of the CSC, the Christian democrat union. Although he concedes that the results of the strike "were not exactly desirable", he insists that the unions have no intention of changing their tactics or campaign.

At the same time none of the unions expects a this type of industrial conflict to recur this year, although they say protests could be stepped up when negotiations are re-opened on a proposed inter-professional agreement at the end of the year.

Meanwhile, interim negotiations between the employers and employees have achieved a small, but symbolically significant breakthrough. After years of wrangling, unions have finally officially accepted that Belgium does face a labour costs competitiveness problem – although they remain at loggerheads with the employers about how to define it.

Pulling their punches: steel workers in Brussels protest at the industry's run-down in countries of the European Union Picture: Reuter

The economic auguries are promising, writes **David Gardner**

Spring is in the air

The Belgian economy is showing signs of a springtime recovery after last year's wintry mixture of recession, currency crisis and political uncertainty.

After a 1.4 per cent contraction of national output in 1993, this year's budget assumes a modest 1.1 per cent recovery in gross domestic product. However, officials are privately looking at a possible 1.9 per cent GDP growth, pulled along by brighter prospects in Germany and France.

Such bald figures, however, tell little of the horror of last year or of the formidable challenges which still lie ahead.

For Belgium, 1993 was traumatic. The recession and unemployment bit hard, and the franc suffered its worst battering since 1982 from speculators, when in August the European exchange rate mechanism (ERM) imploded and all currencies within the grid were set free to float within wide bands.

The Centre-Left coalition led by Christian Democrat Mr Jean-Luc Dehaene frequently seemed on the brink of collapse, bruised by scandals affecting its Socialist partners, challenged from within and from the unions over austerity measures, and in the final difficult throes of turning Belgium into a federal state to enable French-speaking Wallonia, Dutch-speaking Flanders and polyglot Brussels to cohabit.

To cap it all, King Baudouin, the embodiment of Belgium's fragile unity, died suddenly in August.

Yet the glue holding Belgium together, and the vitality of its economy, were stronger than most people had guessed.

If there was a single turning point, it was probably the government's mid-November adoption of the Global Plan, a package to rein in budget and social security deficits, boost industrial competitiveness, and freeze wages in real terms until the end of 1996.

These measures were designed to release the strength of a high-productivity, export-oriented economy, weighed down by huge public deficits and a growing wage gap with Belgium's main trading partners. Pushed through stubbornly by Mr Dehaene against trade union strikes and protests, they appear so far to be working.

It is still hard to pin down the precise reasons for the better than expected growth in output.

On the heels of a surprisingly severe wage freeze – the government quietly subtracted fuel and tobacco from the retail price index to which Belgian wages are linked – recovery is being driven by exports rather than domestic consumption.

The authorities predict a handsome current account surplus for the Belgium-Luxembourg Economic Union this year of BFr400bn, or 5 per cent of GDP. This is double the average surpluses of the second half of the 1980s, but, most importantly, the mix has changed.

About half of the surplus is on the trade account, and three fifths of it is Belgian, whereas the banking centre of Luxembourg traditionally accounted for around three quarters.

The government is closely studying why Belgium's exports and market share should be rising. Belgium exports around two thirds of its output, and two thirds of that goes to Germany, France and the Netherlands, its neighbours and peers in the "hard-core" group of ERM currencies.

But wages had risen more slowly in those depressed markets, and Belgium was and is paying a competitive price for its franc fort policy of shadowing the D-Mark. "We are trying to figure out the paradox," smiles Mr Phillipe Maystadt, the finance minister.

He and his officials suggest the margin between wages in Belgium and in its competitors was relatively small in the light of the persistent trend towards higher Belgian productivity gains.

"I'm afraid the adjustment is being made not through the current account but the rise in unemployment," Mr Maystadt says, forecasting a jobless rise to 10.1 per cent by year-end before things improve.

Finance minister Philippe Maystadt: pondering the paradox

But the improvement could then be quite rapid. Mr Peter Praet, chief economist at Générale de Banque, points out that inventories have been cut drastically, leading to one of the lowest ever levels of stocks. Export-led growth now should therefore feed into a revival of investment, then of domestic demand, and then of jobs.

Unlike the recessions in 1975 and 1980-82, most of Belgium's generally low debt and cash-rich companies remain respectably profitable. The overburdened social security system has taken a good deal of the shock of lay-offs and early retirements, while the BFr30bn take from new energy taxes is being recycled into the tradeable goods sector to reduce employers' payroll costs.

Mr Alfons Verplaetse, the governor of the central bank, reckons these transfers alone should create 50,000 new jobs over the next four years. "For a politician four years is an eternity but not for Dehaene," he remarks.

Sticking with the Global Plan of which this is part is vital. Mr Dehaene is now in the running to succeed Mr Jacques Delors as president of the European Commission, but his tough managerial reputation is more likely to be needed to ensure the success of the Plan – and to take the further, sensitive measures needed to deal with Belgium's debt.

The Plan and spending cuts made last year look as though they will quickly bring the social security deficit into rough balance, and cut the budget deficit from 7.2 per cent in 1993 to 5.7 per cent – under the likely EU average – this year.

Still to be attacked is the debt stock, equivalent to 130 per cent of GDP, which towers over the economy and the franc even though Belgium's huge stock of household savings, equivalent to 175 per cent of GDP, far outweighs it.

The debt is over twice the 60 per cent debt-to-GDP ratio set down in the Maastricht treaty as the marker for economic and monetary union (Emu) by 1997 or 1999 – to which Belgium is firmly committed.

The debt stock is a useful alibi for pushing through structural reform of public finances and attacking the budget deficit.

Lower interest rates plus the repricing of virtually all Belgium's more expensive debt has, moreover, brought significant savings on an interest bill which had grown to 11 per cent of GDP.

As Mr Verplaetse points out, "once nominal growth exceeds the deficit, we're in a virtuous circle," helping bring down the debt/GDP ratio, probably from 1995. Growing privatisation receipts could also be used to retire debt.

But a new assault on public finances will almost certainly be needed before 1996, when the Maastricht review of early candidates for Emu will take place. For instance, the Brussels region is in trouble because of its shrinking tax base, while the education system on both sides of the language divide (but especially in Wallonia) is heading for insolvency.

This would need a very tight budget for 1996. But that is virtually impossible unless federal elections are brought forward from their November 1995 deadline. Even then, going further than the government has already done will be socially and politically risky.

In Mr Praet's view of the medium-term, "you need somebody like Dehaene to take these sorts of decisions."

■ **Profile:** CENTRAL BANK GOVERNOR ALFONS VERPLAETSE

A force to be reckoned with

Somewhere near the top of the list of movers and shakers in modern Belgium stands Mr Alfons Verplaetse, governor of the central bank.

His affable manner – accompanied by guttural chuckles and the occasional "ooh-lah-lah" when describing the tumultuous events in the currency markets in 1993 – offers few clues as to the importance of his job. But make no mistake: "The Fons" is a force to be reckoned with.

As head of the National Bank of Belgium, Mr Verplaetse is the guardian of the national currency. He is the co-architect and standard bearer of the long-standing policy of shadowing the D-Mark, a policy which has served as the counter-inflationary anchor for Belgium but which came under severe strain during last summer's currency crisis inside the European Monetary Suystem.

Mr Verplaetse also played an influential, if at times mildly controversial, backroom role last year ahead of negotiations between government, employers and trades unions on the global pact to bolster competitiveness, cut social spending and create more jobs. The governor supplied the intellectual framework (and the number-crunching) for the pact.

Mr Verplaetse has been governor of the National Bank since 1989. Born in Zulte, in western Flanders, he took a degree in commercial science at the Catholic University of Leuven, and joined the bank in 1953. His career took off when he became chef de cabinet of then prime minister Wilfried Martens, where his formative experience was preparing the currency devaluation in 1982 which set Belgium back on the path of fiscal orthodoxy.

Alfons Verplaetse: champion of shadowing the D-Mark

Mr Verplaetse is a numbers man to his fleshy finger-tips. He rolls off figures with ease, pausing only to confirm their accuracy in the ever present annual report of the National Bank. Similarly, he pays discreet reference to his daily telephone conversations with his counterparts in Amsterdam, Luxembourg, Paris, and Frankfurt – one more sign of the close co-operation these days between the "hard core" currency club within the European exchange rate mechanism.

The spirit of co-operation was sorely tested last summer when market scepticism about the pace of interest rate reductions in Germany triggered a wave of attacks on the Belgian franc, the Danish krone and the French franc. Finance ministers responded by widening the ERM fluctuation bands from 2.25 and 6 per cent to 15 per cent on either side of the central rates.

Mr Verplaetse supported the decision, but it led to severe pressure on the Belgian franc throughout the autumn. Market operators, having witnessed the virtual collapse of the ERM, were determined to test the resolve of the Belgian authorities.

Looking back, Mr Verplaetse says the National Bank's strategy was straightforward: "We had to buy time for the government." This involved two separate manoeuvres. The first was a rise in short-term interest rates which risked choking off the early signs of economic recovery. The second was a more complicated effort to support the government's plan to secure an agreement on an austerity pact with unions and employers.

In retrospect, even Mr Verplaetse is guarded about the experience. On the one hand, the social pact included some 80 per cent of the Verplaetse panel's recommendations; but the experience of not being able to secure a consensus across the board clearly came as a surprise to the governor. "It was a new phenomenon," he says, noting that in 1982 it was easier.

A Belgian Cabinet minister is blunter: "It was a mistake, and it will not happen again."

However noble the political intention, the impression was left that the National Bank was ready to compromise its independence, just at the time when central bank independence is a key tenet of the Maastricht treaty's provisions for European monetary union.

Yet without the contribution of Mr Verplaetse, it is doubtful if the global pact would have got off the ground.

Lionel Barber